exercise efficiencies.

Madam Chair, members of the Commission, I look forward to an opportunity to examine the witnesses and to speak further on these matters, but I submit to you that, on the basis of the evidence of this case, you should reject the Application that's been submitted to you, for the reasons I've stated. Thank you.

CHAIRMAN HALL: Thank you, Mr. Guild.

Okay. Now, Mr. Burgess.

MR. BURGESS: SCE&G calls Kevin Marsh to the stand.

[Witness affirmed]

THEREUPON came,

K E V I N B . M A R S H ,

called as a witness on behalf of the Petitioner, South Carolina Electric & Gas Company, who, having been first duly affirmed, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BURGESS:

Q Mr. Marsh, would you please state your name for the record?

A My name is Kevin Marsh.

Q By whom are you employed and in what capacity?

A I'm employed by SCANA Corporation. I'm the chief executive officer.

Q And did you prepare or cause to be prepared under your direct supervision 49 pages of direct testimony that's been prefiled in this docket?

A I have.

CHAIRMAN HALL: Mr. Burgess, could you pull that microphone closer? I don't think everybody can hear you.

BY MR. BURGESS:

Q Mr. Marsh, were there any changes or corrections required of your testimony?

A I have three small changes, and I'll be glad to highlight those.

Q Would you please indicate the page number and line number for those corrections that are required?

A The first one would be on page 17 at the bottom of the page. On line seven, there's a parenthetical there that starts "Approximately one-half of the Alternative Resources..." Right after the opening parenthetical should be inserted "In 2019-2021." So it should read "In 2019-2021 approximately one-half of the Alternative Resources..." on that line seven.

The next change is on page 25. On line three, after the word "does" the word "the" should be inserted between "does" and "company's." And on line four, the word "stands" should be "stand"; eliminate the "s" from "stands."

The final change is on page 46, line nine. The words "as the" should be replaced with the word "for." So that line would read "schedules for BLRA purposes."

That would be all the changes I have.

Q Mr. Marsh, subject to those edits in your prefiled direct testimony, if I asked you all the questions contained in your testimony, would your answers be the same?

A Yes, they would.

MR. BURGESS: Madam Chairman, at this time, we would move into the record the prefiled direct testimony of Kevin Marsh as if given orally from the stand.

CHAIRMAN HALL: All right. Mr. Marsh's testimony will be entered into the record as if given orally.

[See pgs 52-100]

MR. BURGESS: Thank you, Madam Chairman.

BY MR. BURGESS:

Q Mr. Marsh, have you prepared a summary of your direct testimony?

A Yes, I have.

Q Would you please deliver that, at this time?

A I will.

Good morning, Madam Chairman and Commissioners. SCE&G comes before the Commission today to request approval of a revised construction milestone schedule and revised cash flow forecast for the two new nuclear units it is building in Jenkinsville, South Carolina.

CHAIRMAN HALL: Excuse me, Mr. Marsh. I'm sorry. Could you pull that microphone a little bit closer? I think the people in the back are having some trouble hearing.

WITNESS: [Indicating.] Is that better?

CHAIRMAN HALL: Do we have-- okay, we're going to switch the mics out.

[Brief pause]

WITNESS: Is that better?

CHAIRMAN HALL: Okay. For the people in the back, is that better?

VOICE: He hasn't said anything.

WITNESS: Is that better?

VOICE: Yes.

CHAIRMAN HALL: Okay.

VOICE: Not much.

WITNESS: Not much? It sounded like it was better with this one [indicating]. Can you hear me with this one at all?

VOICE: Yes.

CHAIRMAN HALL: Okay, that's good.

WITNESS: I'll start over.

SCE&G comes before the Commission today to request approval of a revised construction milestone schedule and a revised cash flow forecast for the two new nuclear units it is building in Jenkinsville, South Carolina. This is the third BLRA update proceeding since the Commission initially approved the project in 2008. At that time, SCE&G provided the Commission with a detailed overview of the risks and challenges of building a nuclear plant. We showed that the benefits to our customers from new nuclear capacity far outweighed the risk and challenges.

We are currently approximately seven years into the project, and the benefits from this project still far outweigh the risk. Capital costs have increased by approximately $712 million, or about 15 percent, since 2008. At the same time, based on current schedules and forecasts, escalation on the project has declined by $214 million, the financing costs on the debt to construct the units has declined by approximately $1.2 billion, and the projected benefit for federal production tax credits, which we will pass directly to customers, has increased by approximately $1.2 billion. The impact of these savings can be expected to offset the impact to customers of the initial - excuse me - of the increase in capital costs since 2008.

In addition, the benefits to our customers from new nuclear capacity still far outweigh the risks. There is no other source of non-emitting, dispatchable base-load power that can replace the generation represented by the units. With both units in service, SCE&G will have reduced its carbon emissions by 54 percent, compared to 2005 levels. At that time, 61 percent of SCE&G's generation will come from non-emitting sources, compared to 23 percent in 2014. The units will be an important part of SCE&G's plan to meet CO_2 emissions limitations that will be required under the EPA's proposed Clean Power Plan.

As Dr. Lynch testifies, even with today's low natural-gas prices, which I believe are not sustainable over the long run, completing the units remains the lowest-cost alternative for meeting customers' need for additional base-load generating capacity.

Completing the units will give SCE&G a well-balanced generation system with roughly equal amounts of coal, gas, and nuclear capacity. If SCE&G were to meet its base-load generation needs by adding new natural gas generation, then fossil fuels would account for approximately 75 percent of SCE&G's generation in 2021, with gas alone representing 48 percent of that generation. This would be an unbalanced generation portfolio that would also be overly subject to environmental and price risks from fossil fuels.

Concerning the financing of the units, as of March 2015, SCE&G has successfully raised approximately 46 percent of the capital needed for the units, or $3.1 billion. This includes $1.5 billion in first mortgage bonds issued at an average interest rate of only 4.99 percent. Interest rates have been locked in on approximately $1.3 billion anticipated 2015-2016 borrowings at an estimated effective rate of 5.09 percent. These rates have been possible because the financial community has become comfortable with the careful and consistent approach the Commission and ORS have used in applying the Base Load Review Act.

We are now entering a critical period in executing the financial plan. At the 36 months beginning with calendar year 2015, we will need to finance approximately $2.8 billion of investment in the units. During this time, SCE&G will not have the option of waiting out unfavorable market conditions or postponing financing if markets have become skeptical of investing in the company due to unfavorable financial or regulatory results. During this period, it will be vitally important that SCE&G maintain access to capital markets on favorable terms.

The BLRA addresses the two principal concerns of the financial markets. One is the risk of regulatory disallowances for events outside the company's control. Write-downs resulting from disallowances have disproportionate impact on investors' risks and return calculations. Under the BLRA, disallowance is permitted only if changes in costs or scheduled forecasts are the result of imprudence by the utility. Markets are comfortable with that risk.

The second concern is the need for revenues to pay financing costs and support debt coverage and other measures of creditworthiness while the project is being built. The BLRA provides for regular rate adjustments during construction to pay financing costs. This maintains SCE&G's creditworthiness while raising the necessary funds.

Nothing is more important to SCE&G's financial plan than maintaining market confidence and the continued application of the BLRA in a fair and consistent way. Loss of this confidence would put the financial plan for completing the units at risk. In this regard, markets see the settlement agreement we've entered into with ORS and the Energy Users as a positive example of how the regulatory process is working in a fair and rational way in South Carolina. As is always the case under the BLRA, revised rates are based on actual payments only, not projections or forecasts, or speculative costs. ORS carefully audits all amounts proposed for revised rates recovery. Only actual costs are included.

My senior management team and I are directly involved in the management and oversight of the new nuclear project. We deal with the issues that arise with Westinghouse aggressively and at the highest levels. If we stay the course with construction and with regulation, the units will provide reliable, non-emitting, base-load power to our customers for 60 years or more.

It is my opinion, based on 38 years' experience in this industry, that the value of the new nuclear capacity under construction today remains much greater than any challenges we have encountered or are likely to encounter during construction of the project.

On behalf of SCE&G, I ask the Commission to approve the updated cost forecast and construction schedule for the units as presented here.

That concludes my summary.

[PURSUANT TO PREVIOUS INSTRUCTION, THE PREFILED DIRECT TESTIMONY {W/CORRECTIONS} OF KEVIN B. MARSH FOLLOWS AT PGS 52-100]

DIRECT TESTIMONY

OF

KEVIN B. MARSH

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2015-103-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is Kevin Marsh and my business address is 220 Operation Way, Cayce, South Carolina. I am the Chairman and Chief Executive Officer of SCANA Corporation and South Carolina Electric & Gas Company ("SCE&G" or the "Company").

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a graduate, magna cum laude, of the University of Georgia, with a Bachelor of Business Administration degree with a major in accounting. Prior to joining SCE&G, I was employed by the public accounting firm of Deloitte, Haskins & Sells, now known as Deloitte & Touche, L.L.P. I joined SCE&G in 1984 and, since that time, have served as Controller, Vice President of Corporate Planning, Vice President of Finance, and Treasurer. From 1996 to 2006, I served as Senior Vice

President and Chief Financial Officer ("CFO") of SCE&G and SCANA. From 2001-2003, while serving as CFO of SCE&G and SCANA, I also served as President and Chief Operating Officer of PSNC Energy in North Carolina. In May 2006, I was named President and Chief Operating Officer of SCE&G. In early 2011, I was elected President and Chief Operating Officer of SCANA and I became Chairman and Chief Executive Officer of SCANA on December 1, 2011.

Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION BEFORE?

A. Yes. I have testified in a number of different proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. In the Petition (the "Petition"), the Company requests that the Public Service Commission of South Carolina (the "Commission") approve an updated construction schedule and schedule of forecasted capital costs for the project to construct V.C. Summer Units 2 & 3 (the "Units"). My testimony explains the requests contained in the Petition and the value the Units represent to SCE&G's customers, to its partner, Santee Cooper, and to the State of South Carolina. I discuss the importance of this proceeding to SCE&G's plan for financing the Units and how this proceeding fits within the structure of the Base Load Review Act ("BLRA.")

Q. WHAT OTHER WITNESSES ARE PRESENTING DIRECT TESTIMONY ON BEHALF OF THE COMPANY?

A. The other witnesses presenting direct testimony on behalf of the Company are Mr. Stephen A. Byrne, Mr. Ronald A. Jones, Ms. Carlette L. Walker and Dr. Joseph M. Lynch.

1. Mr. Byrne is the President for Generation and Transmission and Chief Operating Officer of SCE&G. His testimony reviews the current status of the construction of the Units and presents the updated construction schedule provided by the contractors, Westinghouse Electric Company, LLC ("WEC") and Chicago Bridge & Iron ("CB&I") (collectively "WEC/CB&I"). Mr. Byrne also testifies concerning the commercial issues with WEC/CB&I related to the project.

2. Mr. Jones is the Vice President for New Nuclear Operations for SCE&G. Mr. Jones will testify concerning change orders related to the project that SCE&G has agreed to with WEC/CB&I, changes in the Estimated at Completion ("EAC") costs and changes in Owner's cost arising from the new project schedule and other matters.

3. Ms. Walker is Vice President for Nuclear Finance Administration at SCANA. She sponsors the current cost schedule for the project and presents accounting, budgeting and forecasting information supporting the reasonableness and prudency of the adjustments in cost forecasts. Ms. Walker also testifies in further detail concerning key drivers of the changes in the Owner's cost forecast.

4. Dr. Lynch is Manager of Resource Planning at SCANA. He will testify concerning updated studies showing that even considering historically low natural gas prices, completing the Units remains the lowest cost option for meeting the generation needs of SCE&G's customers.

All Company witnesses testify in support of the reasonableness and prudency of the updated construction schedule and the costs it represents. From my knowledge of the project and my perspective as SCE&G's Chief Executive Officer, I can affirmatively testify that SCE&G is performing its role as project owner in a manner that is reasonable, prudent, cost-effective and responsible. The other witnesses are providing similar testimony about the project from their particular areas of expertise.

Q. PLEASE PROVIDE AN OVERVIEW OF THE REGULATORY HISTORY OF THE PROJECT.

A. In 2005, SCE&G began to evaluate alternatives to meet its customers' need for additional base load capacity in the coming decades. In this evaluation, the Company took account of its aging fleet of coal-fired units, the volatility in global fossil-fuel markets, and the increasingly stringent environmental regulations being imposed on fossil-fuel generation. In its evaluation, the Company sought proposals from three suppliers of nuclear generation units. The evaluation of all alternatives resulted in the Company signing an Engineering, Procurement, and Construction Agreement (the "EPC Contract") with what is now

WEC/CB&I on May 23, 2008, after two and one-half years of negotiations. On May 30, 2008, the Company filed a Combined Application under the BLRA seeking review by the Commission and ORS of the prudency of the project and the reasonableness of the EPC Contract. The cost schedule presented to the Commission in 2008 also included a reasonable forecast of owner's contingency for the project. SCE&G's share of the total anticipated cost was $4.5 billion.[1] In December 2008, the Commission held nearly three weeks of hearings and took evidence from 22 expert witnesses about the project, the contractors, the EPC Contract and risks of construction.

Q. WHAT WAS THE RESULT OF THOSE PROCEEDINGS?

A. On March 2, 2009, the Commission issued Order No. 2009-104(A) approving the prudency of the project and the schedules presented by the Company. The South Carolina Supreme Court reviewed the Commission's determinations and ruled that "based on the overwhelming amount of evidence in the record, the Commission's determination that SCE&G considered all forms of viable energy generation, and concluded that nuclear energy was the least costly alternative source, is supported by substantial evidence." *Friends of Earth v. Pub. Serv. Comm'n*, 387 S.C. 360, 369, 692 S.E.2d 910, 915 (2010). In a related case, *S.C. Energy Users Comm. v. S.C. Pub. Serv. Comm'n*, 388 S.C. 486, 697 S.E.2d 587 (2010),

[1] Unless otherwise specified, all cost figures in this testimony are stated in 2007 dollars and reflect SCE&G's share of the cost of the Units.

the Court ruled that costs which were not identified and itemized to specific expense items—specifically, owner's contingency costs—could not be included in the Commission-approved cost schedule for the Units. In denying contingencies, the Court recognized that the BLRA allows the Company to return to the Commission to seek approval of updates in cost and construction schedules as the Company is doing here.

Q. PLEASE DESCRIBE THE COST AND SCHEDULE UPDATES SINCE ORDER NO. 2009-104(A) WAS ISSUED.

A. Since 2009, SCE&G has appeared before the Commission three times to update the cost and construction schedules for the Units.

1. In 2009, the Commission updated the construction schedule to reflect a site-specific integrated construction schedule for the project which WEC/CB&I had recently completed. The 2009 update changed the timing of cash flows for the project, but the total forecasted cost for the Units of $4.5 billion did not change.
2. A 2010 update removed un-itemized owner's contingency from the cost schedule in response to the decision in *S.C. Energy Users Comm. v. S.C. Pub. Serv. Comm'n, supra,*. The Company also identified approximately $174 million in costs that previously would have been covered by the owner's contingency. The approved cost of the project dropped from $4.5 to $4.3 billion.

3. In 2012, the Commission updated the capital cost forecasts and construction schedule. The cost forecasts were based on a settlement between SCE&G and WEC/CB&I for cost increases associated with:
   a. The delay in the Combined Operating License ("COL") issued by the Nuclear Regulatory Commission (the "NRC");
   b. WEC's redesign of the AP1000 Shield Building;
   c. The redesign by WEC/CB&I of certain structural modules to be used in the Units; and
   d. The discovery of unanticipated rock conditions in the Unit 2 Nuclear Island ("NI") foundation area.

The Commission also updated the anticipated schedule of Owner's cost to reflect more detailed operations and maintenance planning; new safety standards issued after the Fukushima event; and other matters. The 2012 update also involved several specific EPC Contract change orders. It increased the anticipated cost for the Units from $4.3 billion to $4.5 billion. The Commission adopted these new schedules in Order No. 2012-884. South Carolina Supreme Court affirmed that order in *S.C. Energy Users Comm. v. S.C. Elec. & Gas*, 410 S.C. 348, 764 S.E. 2d 913 (2014).

Q. PLEASE PROVIDE AN OVERVIEW OF THIS PETITION.

A. In this proceeding, SCE&G seeks approval of the revised milestone schedule (the "Revised Milestone Schedule") attached to Company Witness Byrne's direct testimony as Exhibit ___ (SAB-2). The updated schedule is based on information recently provided to SCE&G by WEC/CB&I. It shows new substantial completion dates for Units 2 and 3 of June 19, 2019, and June 16, 2020, respectively (the "Substantial Completion Dates").[2]

SCE&G has also submitted a revised cash flow forecast for the project (the "Revised Cash Flow Forecast"). That schedule is attached to Company Witness Walker's direct testimony as Exhibit No. __ (CLW-1). It shows an updated cost forecast for the Units dollars of $5.2 billion, which is an increase of approximately $698 million, or 15%, from the costs approved in Order No. 2012-884.[3] Chart A, below, summarizes these adjustments.

[2] SCE&G has not, however, accepted WEC/CB&I's contention that the new Substantial Completion Dates are made necessary by excusable delays. Nothing in this testimony should be taken as a waiver or abandonment of any claims SCE&G may have against WEC/CB&I. Explanations of the reasons for certain delay or cost increases should not be taken as an indication that SCE&G agrees that the associated delays or cost increases are excusable under the EPC Contract or that WEC/CB&I is not liable to SCE&G for the resulting costs and other potential damages.

[3] This $698 million is net of approximately $86 million in liquidated damages that SCE&G intends to seek from WEC/CB&I for the delays. While WEC/CB&I disputes this claim, SCE&G does not believe that WEC/CB&I's counter position should be recognized in determining anticipated payments to complete the project.

CHART A
SUMMARY OF COST ADJUSTMENTS
(millions of dollars)

	Delay Cost	Non-Delay Cost	Total Cost
ESTIMATE AT COMPLETION (EAC) COST*			
Associated with Delay	$ 228.1		
Less: Liquidated Damages	$ (85.5)		
Net Associated with Delay			$ 142.6
Not Associated with Delay			
Other EAC Cost			
Productivity and Staffing Ratios		$ 154.8	
WEC T&M Changes		$ 27.4	
Total: Other EAC Costs		$ 182.2	
Design Finalization		$ 71.9	
Total Not Associated with Delay			$ 254.1
TOTAL EAC COST ADJUSTMENT			$ 396.7
OTHER EPC ADJUSTMENTS			
Ten Change Orders		$ 56.5	
Less: Switchyard Reallocation		$ (0.1)	
TOTAL EPC COST ADJUSTMENT			$ 453.1
OWNER'S COST			
Associated with Delay	$ 214.3		
Not Associated with Delay		$ 30.8	
TOTAL OWNER'S COST ADJUSTMENT			$ 245.1
TOTAL ADJUSTMENT	$ 356.9	$ 341.3	$ 698.2
TOTAL ADJUSTMENT (Without Liquidated Damages)	$ 442.4	$ 341.3	$ 783.8

Totals may vary due to rounding.

* Delay and Other EAC Costs as reported in the Petition is $411 million. It includes (a) EAC Costs Associated with Delay ($228.1 million), and (b) Other EAC Cost ($182.2 million).

Q. HOW DOES THE CURRENT ANTICIPATED COST OF THE PROJECT TO CUSTOMERS COMPARE TO THE ORIGINAL PROJECTIONS?

A. While the base capital cost of the project has increased, several components of the ultimate cost of the project to customers are projected to offset this increase:

a. **Capital cost.** Capital costs are increasing by $712 million in 2007 dollars compared to the amount approved in Docket 2008-196-E. The $712 million increase reference here is different than $698 million increase referenced in the Petition but both arc correct. The total cost approved in Order No. 2012-884 was more than that approved in Order No. 2009-104(A) by approximately $14 million. As a result the increase in anticipated costs is approximately $698 million when compared to Order No. 2012-884 and $712 million when compared to Order No. 2009-104(A).

b. **Escalation.** The forecasted cost of escalation on the project has declined by $214 million compared to 2008. This is true even taking into account the increased cost of the project, and the effect of extending the project by two years.

c. **Financing.** Since 2008, SCE&G has been able to obtain low-cost borrowing for the project based on support from the BLRA, SCE&G's favorable bond ratings, and the low cost of financing available in debt markets. Compared to the projections presented in 2008, customers are anticipated to save approximately $1.2 billion in interest costs (in future dollars) over the life of the debt that has been issued to date to finance the project and on future issuances where interest rates have been hedged.

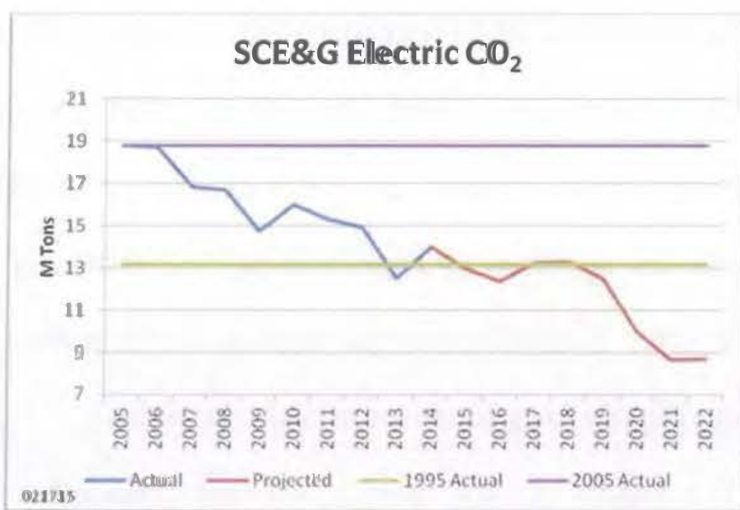
d. **Production Tax Credits.** The 2005 Energy Policy Act provides a production tax credit to qualifying new nuclear units of 1.8 cents per kWh during the first eight years of operation. The credits are limited to 6,000 MW of nuclear capacity built during a specified period with qualifying units sharing the credits pro rata. In 2008, SCE&G anticipated its total benefit would be $1.06 billion gross of tax. Now it appears that there will be a smaller number of competing utilities so that SCE&G will receive a larger amount of credits. Assuming that the current completion dates can be maintained, SCE&G's forecasted benefit has increased by approximately $1.2 billion in future dollars since 2008. SCE&G intends to pass all of the savings from the tax credits directly to its customers as fuel cost credits.

The impact of these savings will more than offset the impact to customers of the forecasted $712 million increase in 2007 capital cost. For that reason, the combined capital and related cost to customers today does not exceed the estimate provided to the Commission in 2008.

Q. HOW HAS THE VALUE OF THE UNITS TO SCE&G'S SYSTEM CHANGED IN RECENT YEARS?

A. When SCE&G and Santee Cooper made the decision to construct these Units, they did so to capture the value of adding 2,234 MW of efficient and non-emitting, base-load generation to their generation portfolios to serve the people of South Carolina. In large part because of the Units, SCE&G projects that by 2021 it will have reduced its carbon emissions by 54% compared to their 2005 levels, and 34% compared to 1995 levels. Chart B shows the forecasted reduction in CO_2 emissions in millions of tons:

<u>Chart B</u>
SCE&G's Forecasted CO2 Emissions



There have also been immediate environmental benefits from the Units. In 2008, the Company committed to evaluate whether building the Units might support retiring smaller coal units. The Company has followed through on this commitment. Since 2008, SCE&G put in place plans to retire 730 MW of smaller coal generating facilities. Canadys Units 1, 2 and 3 have been taken out of service. Urquhart Unit 3 has been converted to gas generation only. For reliability purposes, SCE&G must maintain McMeekin Units 1 and 2 in service pending the completion of the new nuclear Units. But the current plan is to fuel the McMeekin units with natural gas after April 15, 2016. They may be taken out of service altogether when the Units come on line. SCE&G plans to bridge the gap between these retirements and the completion of the new nuclear Units through interim capacity purchases.

Q. HOW DOES THE ENVIRONMENTAL PROTECTION AGENCY'S ("EPA") PROPOSED CLEAN POWER PLAN AFFECT THE VALUE OF THE UNITS?

A. EPA's proposed Clean Power Plan was issued in June 2014. The accompanying Clean Power Plan regulations are not yet in final form. But they will require substantial cuts in CO_2 emissions from most state's electric generation fleets. Planning for these reductions underscores the value and importance of nuclear generation.

Q. HOW DOES THE CLEAN POWER PLAN WORK?

A. The Clean Power Plan is based on Section 111(d) of the Clean Air Act which governs existing generating units. In that plan, EPA has computed a target carbon intensity rate for each state's fleet of existing large power plants. That target carbon intensity rate is expressed in pounds of carbon per megawatt hour of electricity generated (lb/MWh). The Plan leaves it to the states to decide how to achieve mandated reductions and how to allocate those reductions among plant operators.

In computing the target for South Carolina, EPA treats the Units as existing units and assumes that they were operating at a 90% capacity factor in 2012. The plan then mandates reductions in carbon intensity rate from that artificially reduced baseline.

Q. WHAT ARE THE SPECIFIC LIMITS BEING PROPOSED FOR SOUTH CAROLINA?

A. EPA is proposing that South Carolina reduce its discharges from its actual 2012 carbon intensity of 1,587 lb/MWh to 772 lb/MWh, a 51% reduction. Compliance will be phased-in beginning in 2020. In its comments to EPA, SCE&G has proposed that the Units not be included in the 2012 baseline calculation. If that is done, South Carolina's carbon intensity target goes to 990 lb/MWh which would mean a reduction in carbon emissions of 38% compared to actual 2012 emissions.

Q. HOW DOES THIS AFFECT THE VALUE OF THE UNITS TO SCE&G'S CUSTOMERS?

A. It is not clear how the proposed EPA regulations will change, or how the State will allocate the required reductions among affected power plant owners. However, for South Carolina to meet its targets efficiently, it will be critically important to complete the Units. There is no other source of non-emitting, dispatchable, base load power available to replace the generation represented by the Units. Generation sources that produce any air emissions are now under intense regulatory pressure. There is no reason to assume that this trend will not continue over the long term. Adding non-emitting nuclear generation has tremendous value in the current environmental context.

Q. WHAT ABOUT OTHER NON-EMITTING TECHNOLOGIES?

A. Solar and renewable resources and energy efficiency will play an increasingly important role in SCE&G's generation mix going forward. SCE&G was an active participant in the group that formulated and advocated the adoption of the South Carolina Distributed Energy Resources Act found in Act No. 236 of 2014. SCE&G is currently working to achieve the renewable resources goals established by the South Carolina General Assembly in that Act. The achievement of those goals is fully reflected in all of our capacity and generation forecasts. The same is true of the energy efficiency goals established in SCE&G Demand Side Management (DSM) program as approved by this Commission. However, with current technologies, renewable resources and energy efficiency cannot displace the need for reliable, dispatchable base load generation.

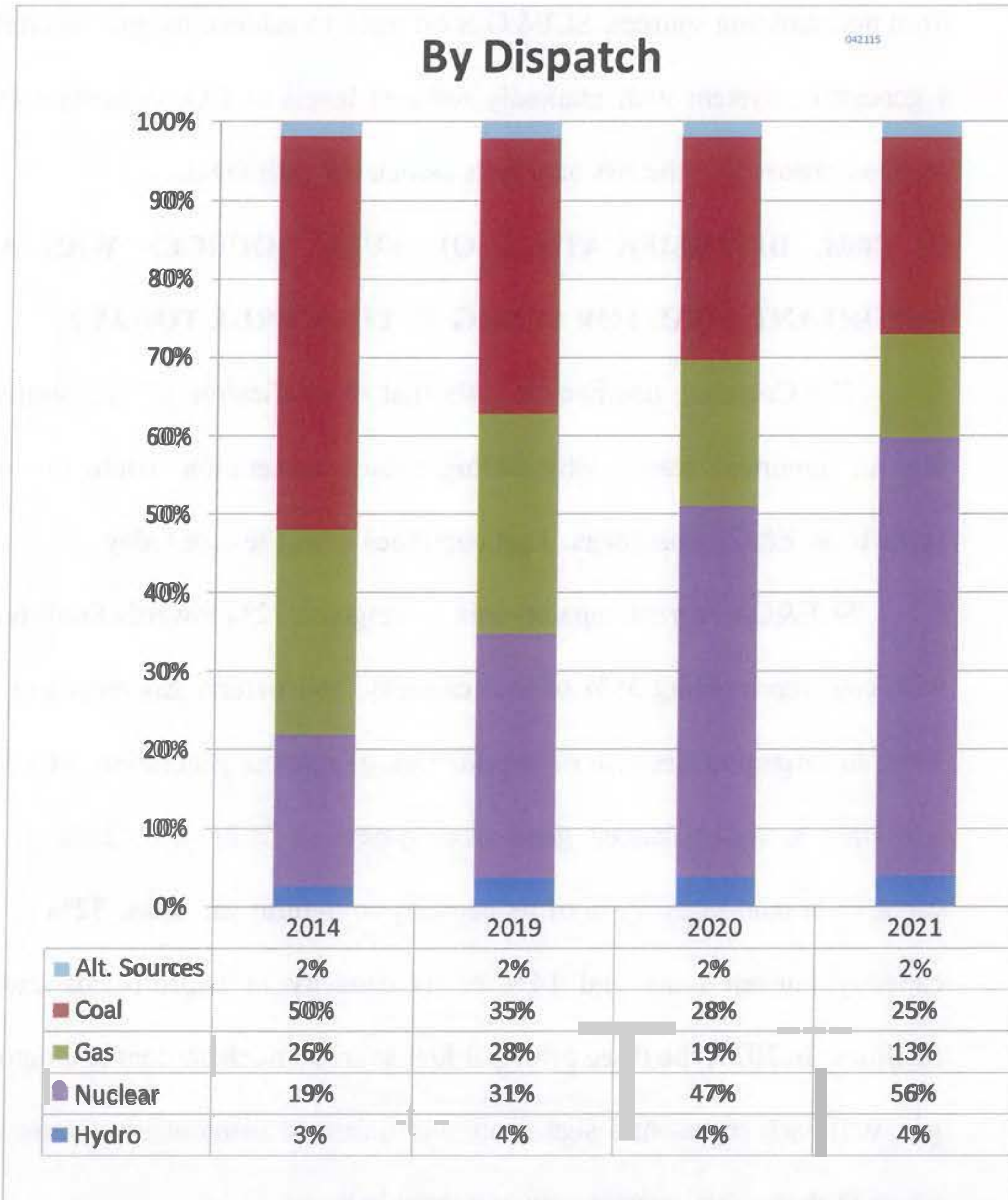
Because of EPA regulations limiting carbon discharges, it is extremely difficult to permit new coal generation. For that reason, the only dispatchable, base load alternative to nuclear generation today is combined-cycle natural gas generation. Natural gas generation involves lower levels of CO_2, NO_X, and SO_X emissions than coal. However, natural gas generation does entail some emissions of CO_2 and the six criteria air pollutants. Nuclear generation remains the only base load resource that is entirely non-emitting with respect to these air pollutants.

Q. WHAT IS SCE&G'S PLAN TO REDUCE ITS CO_2 EMISSIONS?

A. As the Company's witnesses testified in 2008, one of SCE&G's long-term goals in choosing to use new nuclear generation was to create a system with a majority of its energy being supplied from non-emitting sources. Chart C on the following shows how that plan stands today.

[Chart C begins on the following page]

Chart C
SCE&G's Current and Forecasted Generation Mix



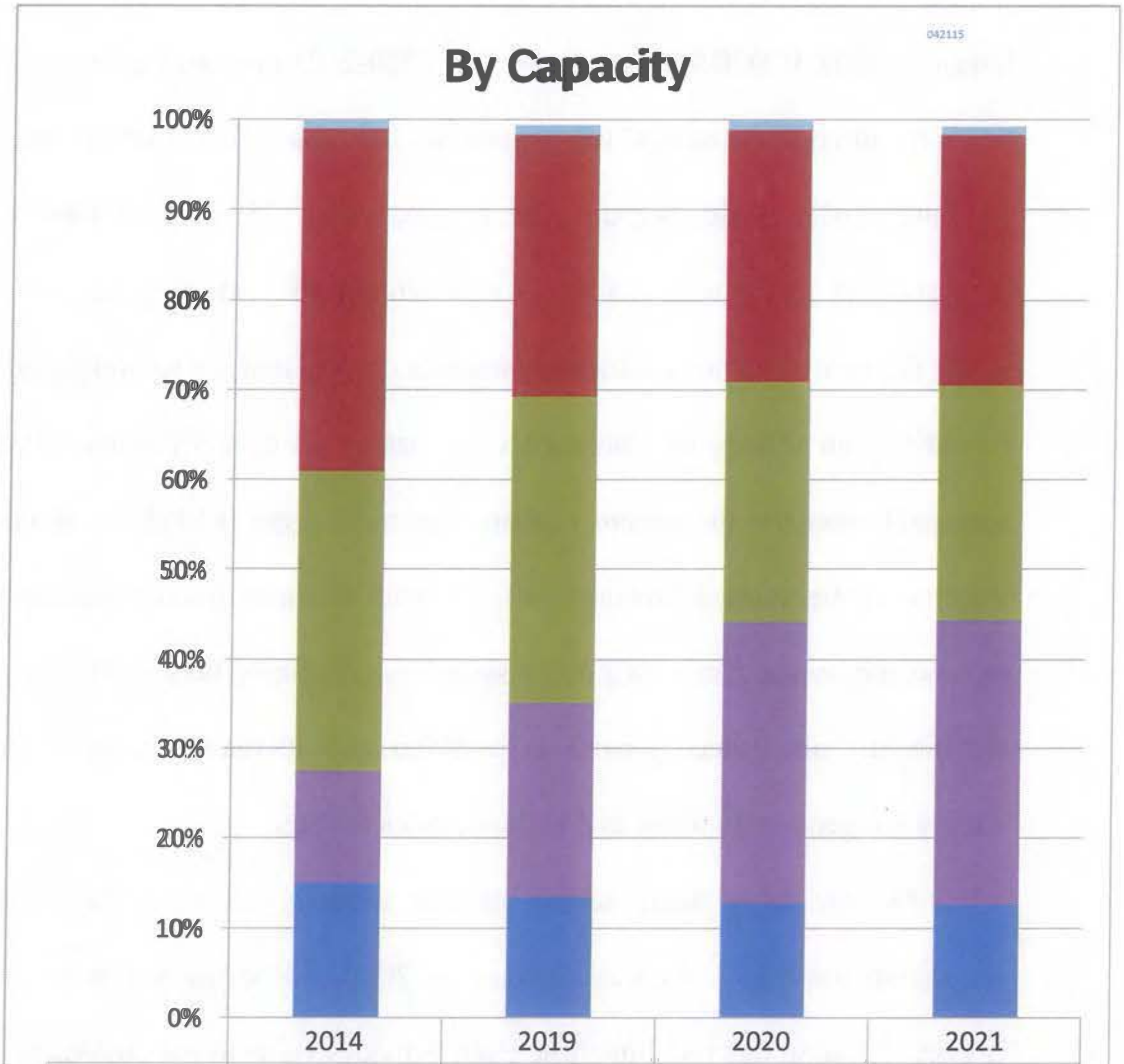
In 2014, 23% of SCE&G generation of energy was from non- In 2019-2021 emitting facilities. (I approximately one-half of the Alternative Resources listed in Chart C are non-emitting. The remainder is biomass). In 2021, which is the first full year that both Units 2 and 3 will be on line, we estimate that 61% of the energy serving SCE&G's customers will come from non-emitting sources. SCE&G is on track to achieve its goal to create a generating system with markedly reduced levels of CO_2 emissions and reduced exposure to the risk and costs associated with them.

Q. IN 2008, DIVERSIFICATION OF FUEL SOURCES WAS AN IMPORTANT GOAL FOR SCE&G. IS THAT TRUE TODAY?

A. The Company testified in 2008 that diversification of fuel sources was an important reason why adding nuclear generation would provide value to SCE&G's customers. That continues to be the case today.

SCE&G's current capacity mix is weighted 72% towards fossil fuel, with coal representing 38% of that capacity, and natural gas representing 34%. In large part because of the addition of nuclear generation, SCE&G will have a well-balanced generation system in 2021 with 28% of its capacity in coal units, 26% of its capacity in natural gas units, 32% of its capacity nuclear units and 14% of its capacity in hydro/biomass/solar facilities. In 2021, the three principal fuel sources, nuclear, coal and natural gas, will each represent a significant and balanced component of capacity. Chart D shows this capacity mix in a graphic form:

Chart D
SCE&G's Current and Forecasted Capacity Mix



	2014	2019	2020	2021
Alt. Sources	1%	1%	1%	1%
Coal	38%	29%	28%	28%
Gas	34%	34%	27%	26%
Nuclear	12%	22%	31%	32%
Hydro	15%	14%	13%	13%

Creating this balanced mix of capacity will give SCE&G operating flexibility to respond to changing market conditions and environmental regulations. I am not aware of a cost effective way today to create this flexibility other than by adding new nuclear capacity. This is particularly true now that for environmental reasons adding new coal capacity is no longer feasible. If SCE&G were to meet its 2020-2021 base load generation needs by adding new natural gas generation, then fossil fuels (natural gas, oil, and coal) would account for approximately 75% of SCE&G's generation in 2021, with gas alone representing 48% of its generation. Given the increasing environmental pressures on coal and the technological limitations on relying on renewables for base load capacity, under any reasonable scenario the system's reliance on natural gas is likely to go up steadily in the years following 2021. Without the new nuclear capacity represented by the Units, SCE&G's system would likely be locked into a significantly unbalanced generation portfolio with increasing reliance on natural gas generation today and in the decades to come.

On the other hand, adding nuclear capacity creates a balanced generation portfolio. As was the case in 2008, this continues to be an important reason that building these Units provides value to our customers.

Q. DO CURRENT LOW NATURAL GAS PRICES CHANGE THE VALUE THAT THE UNITS WILL PROVIDE TO CUSTOMERS?

A. Hydraulic fracturing, or "fracking," has reduced the cost and increased the supply of natural gas at this time and for some years in the future. However, predictions of future natural gas prices are notoriously unreliable over the long-term. The planning horizon for determining the value of a nuclear unit is 60 years or more. Prices for fuels are historically volatile as natural gas will change over that time. The lesson of history is that fossil fuel prices will change dramatically and unexpectedly over that long a time. Therefore, prudent utility generation plans seek to create balanced systems that can respond as prices fluctuate over time and are not overly dependent on any one fuel source. As discussed above, that is what SCE&G's generation plan seeks to do.

In the case of natural gas supplies and fracking, there are efforts underway to limit fracking based on environmental concerns. But the issues go beyond fracking. The Sierra Club indicates on its current website that it is committed to "putting natural gas back in the dirty box with its fossil fuel brethren." In its "Beyond Natural Gas" campaign, the Sierra Club tells readers of its website that "[t]otal life-cycle emissions for coal and gas are nearly equivalent," and that "[t]he Sierra Club continues to legally challenge new natural gas plants and demand requirements that limit their emissions of greenhouse gases." According to the Sierra Club, "[n]atural gas is not part of a clean energy future."[4] It is only reasonable to assume that once coal plants are closed, restricting natural gas generation will become the principal focus of entities like the Sierra Club.

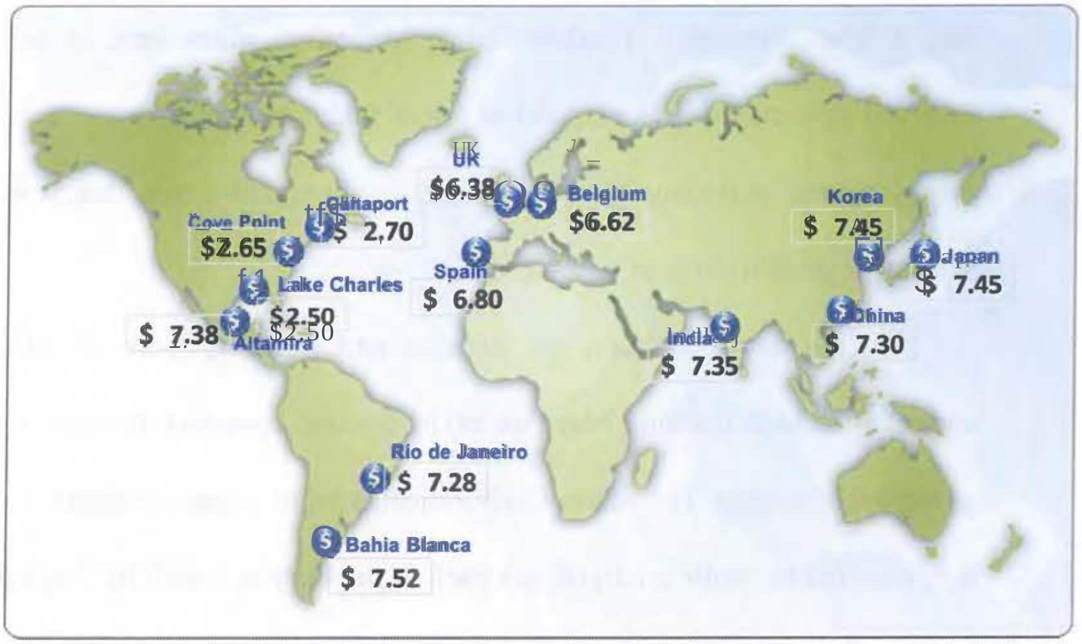
In addition, domestic United States natural gas prices are still out of line with global prices:

[4] http://content.sierraclub.org/naturalgas/protect-our-climate (accessed May 20, 2015).

CHART E

Landed LNG Prices, April 2015

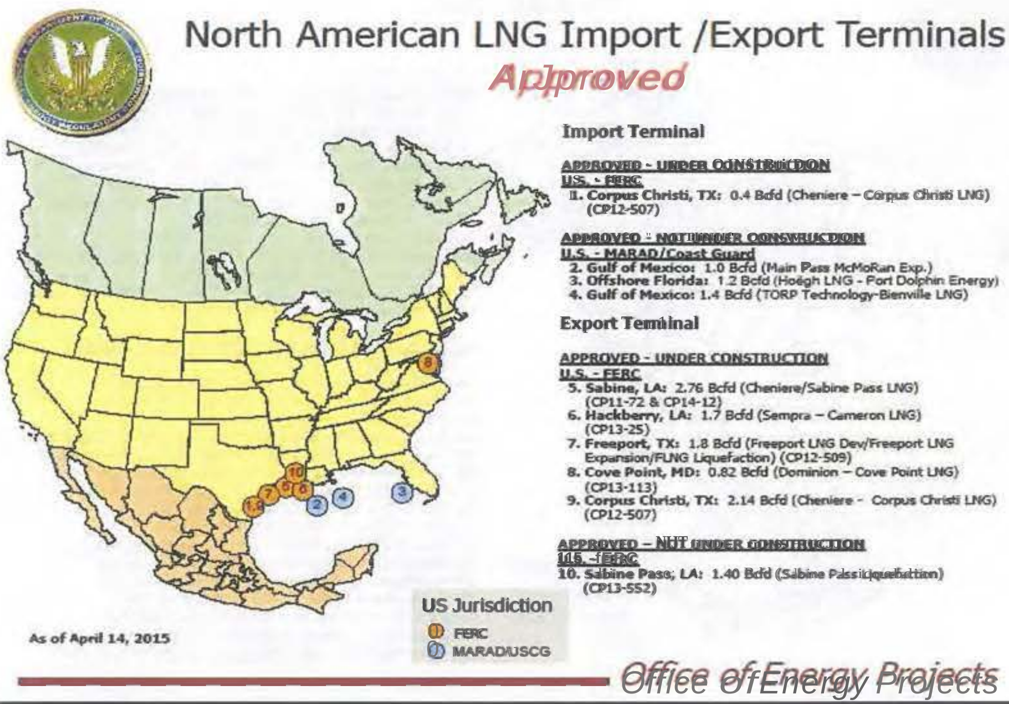
($US/MBTU)

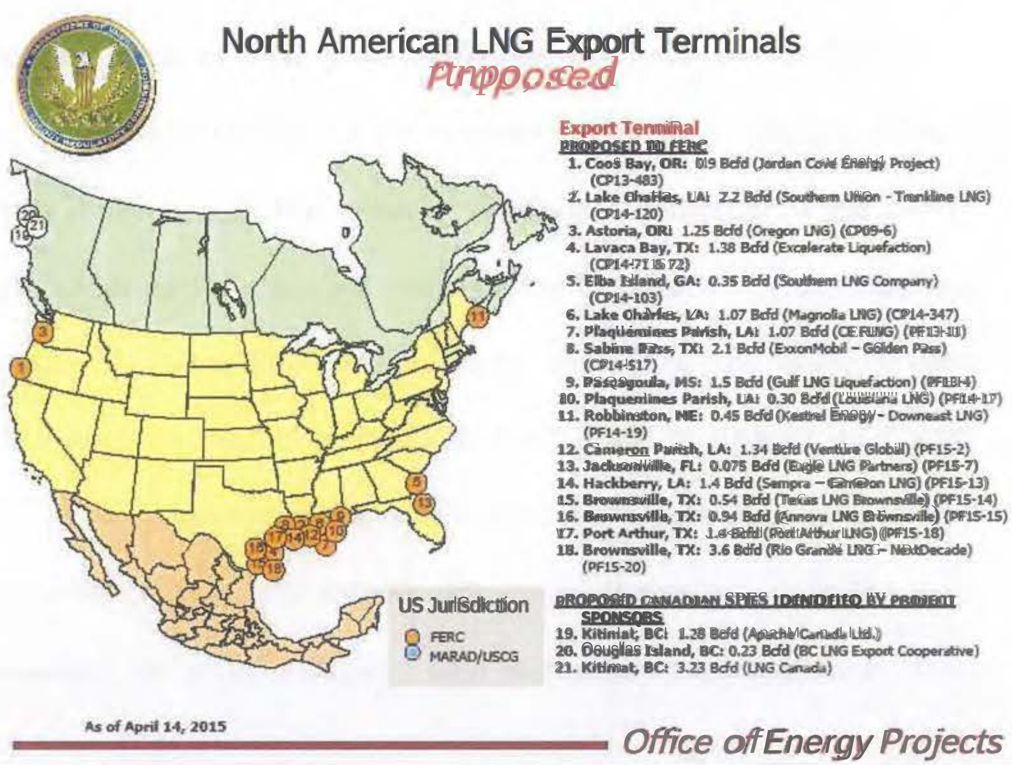


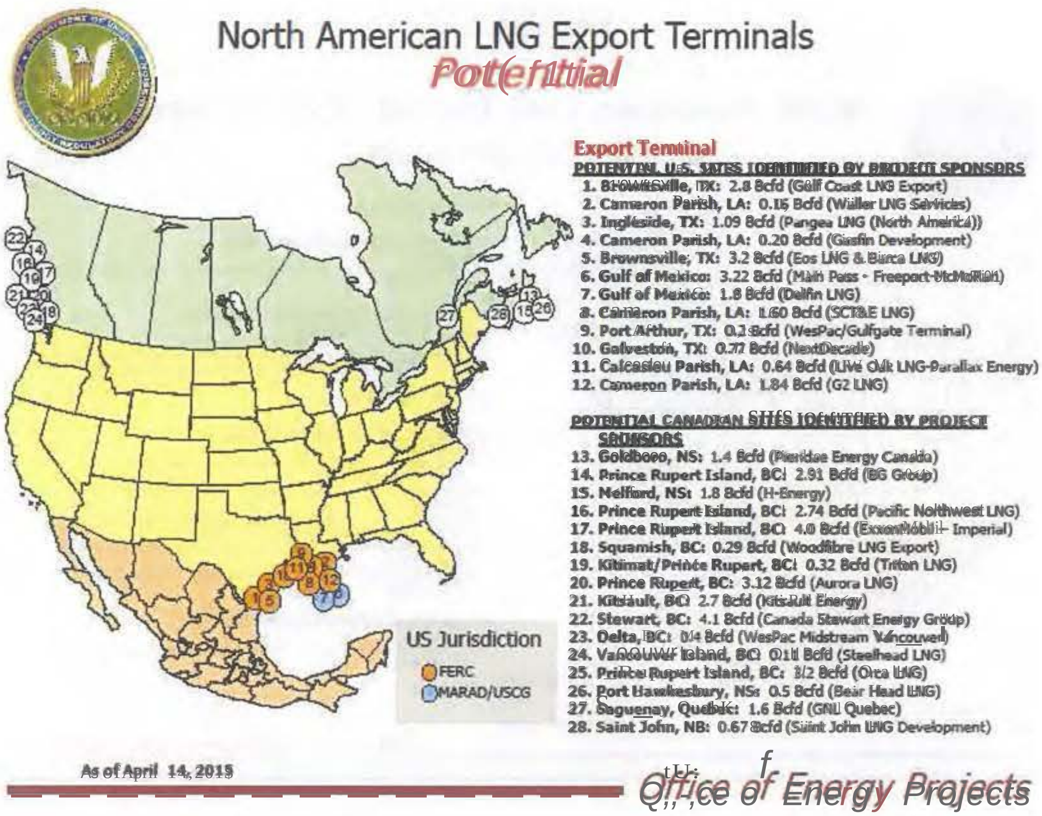
http://www.ferc.gov/market-oversight/mkt-gas/overview/ngas-ovr-lng-wld-pr-est.pdf   Updated: April 2015

How long the current price disparities can remain is difficult to determine. But there is every reason to expect that in the coming years U.S. natural gas prices may begin to respond to global markets and the global hunger for energy. Major energy companies are moving to expand their infrastructure to export natural gas produced in the United States as liquefied natural gas ("LNG"). A review of the reported 2015 data indicate that 24 new LNG export facilities have been approved or proposed to be permitted in the United States. Another 26 sites are listed as potential export sites in North America.

CHART F


North American LNG Import /Export Terminals
Approved
Import Terminal
APPROVED - UNDER CONSTRUCTION
U.S. - FERC
1. Corpus Christi, TX: 0.4 Bcfd (Cheniere – Corpus Christi LNG) (CP12-507)
APPROVED - NOT UNDER CONSTRUCTION
U.S. - MARAD/Coast Guard
2. Gulf of Mexico: 1.0 Bcfd (Main Pass McMoRan Exp.)
3. Offshore Florida: 1.2 Bcfd (Hoegh LNG - Port Dolphin Energy)
4. Gulf of Mexico: 1.4 Bcfd (TORP Technology-Bienville LNG)
Export Terminal
APPROVED - UNDER CONSTRUCTION
U.S. - FERC
5. Sabine, LA: 2.76 Bcfd (Cheniere/Sabine Pass LNG) (CP11-72 & CP14-12)
6. Hackberry, LA: 1.7 Bcfd (Sempra – Cameron LNG) (CP13-25)
7. Freeport, TX: 1.8 Bcfd (Freeport LNG Dev/Freeport LNG Expansion/FLNG Liquefaction) (CP12-509)
8. Cove Point, MD: 0.82 Bcfd (Dominion – Cove Point LNG) (CP13-113)
9. Corpus Christi, TX: 2.14 Bcfd (Cheniere - Corpus Christi LNG) (CP12-507)
APPROVED – NOT UNDER CONSTRUCTION
U.S. - FERC
10. Sabine Pass, LA: 1.40 Bcfd (Sabine Pass Liquefaction) (CP13-552)
US Jurisdiction
FERC
MARAD/USCG
As of April 14, 2015
Office of Energy Projects


North American LNG Export Terminals
Proposed
Export Terminal
PROPOSED TO FERC
1. Coos Bay, OR: 0.9 Bcfd (Jordan Cove Energy Project) (CP13-483)
2. Lake Charles, LA: 2.2 Bcfd (Southern Union - Trunkline LNG) (CP14-120)
3. Astoria, OR: 1.25 Bcfd (Oregon LNG) (CP09-6)
4. Lavaca Bay, TX: 1.38 Bcfd (Excelerate Liquefaction) (CP14-71 & 72)
5. Elba Island, GA: 0.35 Bcfd (Southern LNG Company) (CP14-103)
6. Lake Charles, LA: 1.07 Bcfd (Magnolia LNG) (CP14-347)
7. Plaquemines Parish, LA: 1.07 Bcfd (CE FLNG) (PF13-11)
8. Sabine Pass, TX: 2.1 Bcfd (ExxonMobil – Golden Pass) (CP14-517)
9. Pascagoula, MS: 1.5 Bcfd (Gulf LNG Liquefaction) (PF13-4)
10. Plaquemines Parish, LA: 0.30 Bcfd (Louisiana LNG) (PF14-17)
11. Robbinston, ME: 0.45 Bcfd (Kestrel Energy - Downeast LNG) (PF14-19)
12. Cameron Parish, LA: 1.34 Bcfd (Venture Global) (PF15-2)
13. Jacksonville, FL: 0.075 Bcfd (Eagle LNG Partners) (PF15-7)
14. Hackberry, LA: 1.4 Bcfd (Sempra – Cameron LNG) (PF15-13)
15. Brownsville, TX: 0.54 Bcfd (Texas LNG Brownsville) (PF15-14)
16. Brownsville, TX: 0.94 Bcfd (Annova LNG Brownsville) (PF15-15)
17. Port Arthur, TX: 1.4 Bcfd (Port Arthur LNG) (PF15-18)
18. Brownsville, TX: 3.6 Bcfd (Rio Grande LNG – NextDecade) (PF15-20)
PROPOSED CANADIAN SITES IDENTIFIED BY PROJECT SPONSORS
19. Kitimat, BC: 1.28 Bcfd (Apache Canada Ltd.)
20. Douglas Island, BC: 0.23 Bcfd (BC LNG Export Cooperative)
21. Kitimat, BC: 3.23 Bcfd (LNG Canada)
US Jurisdiction
FERC
MARAD/USCG
As of April 14, 2015
Office of Energy Projects



Furthermore, there are questions about how to make sufficient pipeline capacity available to transport natural gas to consumers if the greater part of the nation's future energy needs will be supplied by natural gas indefinitely. A number of new pipelines are under construction or have been proposed such as the new Atlantic Coast Pipeline being constructed from West Virginia to North Carolina. Capacity in these pipelines will be significantly more expensive than existing pipeline capacity.

SCE&G continues to believe that over the long planning horizon that is involved when procuring base load generation units, the unbalanced reliance on any single fuel source is dangerous from both a cost and a reliability standpoint. Over the long-term, prices will change unpredictably.

I have testified to that fact before this Commission in past proceedings. It continues to be my firm belief.

Q. WHERE DOES THE COMPANY'S FINANCIAL PLAN REGARDING THE UNITS PLAN STAND~~S~~ TODAY?

A. As of March 2015, SCE&G had successfully raised the capital necessary to support $3.1 billion of the $6.8 billion cost of the Units in future dollars (which is comparable to $5.2 billion in 2007 dollars). This represents approximately 46% of the value of the Units when completed. SCE&G has supported this investment through issuance of debt in the form of first mortgage bonds of SCE&G and equity from SCE&G's retained earnings, and sales of common stock by SCANA and retained earnings of SCANA, the proceeds of which have been contributed to SCE&G. Where possible, SCE&G has locked in favorable interest rates for future borrowings. As of March 2015, interest rates on approximately $1.3 billion in anticipated 2015-2016 borrowings have been locked in at an estimated effective rate of 5.09%.

Q. HOW HAS THE FINANCIAL COMMUNITY RESPONDED TO SCE&G'S BORROWING TO SUPPORT THE UNITS?

A. As evidenced by SCE&G's recent debt offerings, the financial community has been supportive of SCE&G's plan to finance the construction of these Units. The financial community is comfortable with the careful and consistent approach to applying the BLRA that has been followed by the ORS and Commission since its adoption. Since 2009, SCE&G has issued approximately $1.5 billion in first mortgage bonds through eight separate issues that are directly related to the nuclear project. The weighted average interest rate of these bonds is only 4.99%.

Q. COULD YOU PROVIDE EXAMPLES OF SUCCESSFUL MARKETING OF BONDS IN RECENT YEARS?

A. SCE&G's $250 million bond issue in February 2011 was oversubscribed by a factor of eight and was ultimately priced at the lowest end of the indicated interest rate range. SCE&G's $250 million bond issue in January 2012 was oversubscribed by a factor of six and, when issued, bore "one of the lowest 30-year coupons of all time," as reported at the time by Credit Suisse. Nevertheless, the next issue, which was SCE&G's $250 million issue in July 2012, bore a yield which "represent[ed] the lowest 30-year utility yield on record," as reported at that time by Well Fargo. SCE&G's $300 million May 2014 bond issue represented the first 50-year bond issued in the utility and power sector and only the sixth such bond ever issued in the United States. It was oversubscribed by a factor of 13 and was issued at a rate estimated to be only 35 basis points higher than a 30-year bond would have borne.

Q. HOW DID THE MARKET RESPOND TO SCE&G'S MOST RECENT BOND ISSUE?

A. In May of this year, SCE&G issued $500 million in 50-year first mortgage bonds. The interest rate was favorable at 5.1%. However, on the day of the issuance the subscriptions for this issue were slow in coming. At one point, it appeared that the entire $500 million might not be sold. In the closing hours of the offering, it required a slight nudge upward in the interest rate to bring the book of potential buyers from $400 million to the expected $500 million. While the interest rate on the bonds was still very good, it was the first time in recent years that the issuance was not oversubscribed. In most other cases, the bonds were quickly oversubscribed.

Q. DO YOU KNOW WHY THESE BONDS WERE MORE DIFFICULT TO SELL?

A. We polled several investment banking firms involved in the transaction. They reported that an important factor for many potential buyers was their concern over regulatory risk related to the current filing. Bond buyers have options. If bond buyers have concerns about SCE&G's risk profile, it is often just as easy for them to buy bonds of companies that do not face such risks as to buy SCE&G's bonds.

Q. WHAT IS YOUR CONCLUSION FROM THESE FACTS?

A. The market is becoming increasingly sensitive to SCE&G's regulatory risk in the nuclear context. The 'overhang' of the current proceeding has brought that risk into focus for the market. We were able to complete the transaction successfully and at a good interest rate, but what we learned is that the risk of losing market support for our financing plan is real. That could happen if the market loses confidence in the consistent application of the BLRA.

Q. WHAT IS THE FINANCIAL PLAN FOR COMPLETING THE UNITS GOING FORWARD?

A. In mid-2015, we are entering a critical time in the execution of our financial plan. We anticipate spending approximately $940 million on the Units in 2015, approximately $1 billion in 2016, and approximately $900 million in 2017. After that time, annual capital expenditures are anticipated to drop quickly. During this three year period, SCE&G will not have the option of waiting out unfavorable conditions in the capital markets or postponing issues during periods where it has achieved unfavorable financial or regulatory results as a company. During this time, it will be vitally important that SCE&G maintain access to capital markets on favorable terms. If SCE&G can maintain access on such terms, the Company may be able to continue to reduce debt costs and the costs to customers from financing the Units as compared to the 2008 projections. However, if access to capital markets on favorable terms is lost, the reverse is true. Financing costs will go up, and in some circumstances, it could prove impossible to finance the completion of the Units.

Q. WHAT ROLE DOES THIS PROCEEDING PLAY IN SCE&G EXECUTING ITS FINANCIAL PLAN?

A. Nothing is more important to SCE&G's financial plan than that we sustain the market's understanding that ORS and the Commission will continue to apply the BLRA in a fair and consistent way. The financial markets understand that the Commission and ORS may come under pressure to deviate from the terms of BLRA as challenges appear in the construction project. The decision here will provide the financial markets with an important signal concerning how the markets should expect that the BLRA will be applied over the remaining five years of the project. That will greatly impact how the financial community assesses the financial and regulatory risks of the project and the rates and terms on which SCE&G will be able to finance the approximately $3.4 billion of debt and equity that remains to be raised.

Q. PLEASE EXPLAIN WHY YOU BELIEVE THAT THE BLRA IS SO IMPORTANT TO THE FINANCING PLAN FOR THE UNITS.

A. The BLRA was adopted to make it possible for electric utilities like SCE&G to consider building new nuclear units. Before the BLRA was adopted, building a new nuclear plant was not a viable option for SCE&G. For SCE&G to seriously consider adding new nuclear capacity, legislative action was needed to overcome two major challenges. These are the two challenges which the BLRA sought to address:

The Financing Challenge. Recovering the financing costs of a project during construction was the first challenge. During construction of a base load plant, a company must raise hundreds of millions of dollars of new capital each year to finance construction costs. Each time bonds are issued to pay for construction, debt service increases. Unless there is a corresponding increase in revenues, debt service coverage ratios decline as do other financial ratios. Bond ratings are based on these ratios. As these ratios decline, the creditworthiness of the company suffers. In time, bond ratings are downgraded. At that point, raising capital on favorable terms can be extremely difficult or potentially impossible. Capital to complete the plant may not be available.

On the equity side, each time additional common stock is issued to support construction, there are more shares outstanding. Additional dividends must be paid. Without new revenues, earnings are diluted. As earnings are diluted, the attractiveness of the stock and its value decline. To finance the next round of construction, a higher number of lower-priced shares must be issued to generate the same amount of capital. This causes yet more dilution and further weakens the value of the stock going into the next financing cycle.

The only solution is for the company to generate revenues sufficient to pay debt service, meet coverage ratios and provide reasonable levels of earnings per share as the new plant is built. Some years ago the

Commission recognized this fact and began to authorize utilities to include the financing costs of plants in rates before they were completed. This was done in general rate cases by recognizing the financing costs associated with construction work in progress ("CWIP") as an expense for ratemaking purposes. The Commission has historically allowed a company to apply its weighted average cost of capital to its CWIP to determine the amount of revenue needed to support the common stock and bonds issued to finance construction. The weighted average cost of capital is the amount of revenue that the Commission has determined to be necessary to support investment of capital in the utility, specifically, to pay debt service on bonds and allow a reasonable level of earning to support common stock.

But this CWIP based approach required the utility to file general rate cases during plant construction. This produced rate adjustments that were stair stepped in one or two-year intervals. SCE&G successfully used this approach when building its last coal plant, Cope Station (1995), and its most recent combined cycle natural gas plant, Jasper Station (2004). During construction, there were a total of six separate rate adjustments which placed some part of the financial costs of the capital spent on those plants into rates.

Cope and Jasper, however, took three to five years to build, not twelve as is the case for nuclear. Outlays for those plants were in the hundreds of millions of dollars, not billions. If this approach were to be used to support a nuclear construction project, it would require SCE&G to litigate full electric rate cases every year or two for approximately 12 years. Neither SCE&G nor its investors considered this to be practical.

Disallowances. The second challenge utilities like SCE&G faced in base load construction was the threat of construction cost disallowances. Investors are sensitive to very small changes in returns. Even 'minor' construction cost disallowances can hit investor returns with crippling force. For example, it takes only a five percent disallowance of principal in a given year—$50 million on a $1 billion investment—to cut a ten percent return in half. Even a small disallowance today indicates the potential for future disallowances as construction progresses. Therefore, even small disallowances can drive investors away and make it impossible for a utility to complete a construction project due to lack of financing.

These financial realities are facts that opponents of nuclear power used to great effect in the last nuclear construction cycle. They underscore why SCE&G believes that even a small departure from the terms of the BLRA could cause the investment community to fundamentally change its assessment of SCE&G's future regulatory risk.

The BLRA. In response, the South Carolina General Assembly adopted the BLRA. It allows for annual rate adjustments through revised rates filings to cover the financing costs of approved nuclear construction projects pending their completion. Financing costs are based on the same weighted average cost of capital that applies under the CWIP method. As with the CWIP method, before a plant goes into service, only financing costs may be recovered under the BLRA, not the cost of the plant itself. The BLRA carries forward the key concepts of the CWIP method but does so without requiring full rate cases each year which would not be practical.

As to disallowances, the BLRA provides an opportunity for the Commission to review the prudency of constructing the plant in detail before construction begins. Once the prudency decision is made, disallowances are permitted if (a) the construction does not proceed within the originally approved cost and construction schedules and (b) schedule amendments such as the updates that are requested here are not made. As to the second point, the BLRA states that the Commission will grant requests for amendment as long as "the evidence of record justifies a finding that the changes are not the result of imprudence on the part of the utility." S.C. Code Ann. § 58-33-270(E)(1).

Under the BLRA, prudency reviews are made based on plans and forecasts before construction begins. The Commission determines whether or not it is prudent to proceed with the project under the construction plan and with the contractors and EPC contract proposed by the Company. The initial plans and forecasts can then be updated so long as the updates are not the result of imprudence by the utility. This assures the financial community that disallowances based on after-the-fact prudency challenges will not impair their ability to recover the capital they invest in the project unless there is imprudence by the utility in administering the project.

Q. WHAT DO YOU BELIEVE TO BE THE POLICY BEHIND LIMITING THE PRUDENCY REVIEW IN UPDATE DOCKETS TO THE PRUDENCY OF THE OWNER IN MANAGING THE PROJECT?

A. In considering disallowances, the BLRA properly focuses on the utility as owner of the project and those cases where the utility has caused additional cost to be incurred through imprudence in its role as owner. More specifically, in this project, the Commission properly looks to SCE&G as owner for prudence in

- construction oversight;
- obtaining licenses and permits for the Units including NRC licenses, and complying with those licenses and permits;
- administering the EPC Contract and enforcing its terms;
- resolving disputes with the EPC contractors;
- constructing transmission facilities to support the Units;
- recruiting, hiring and training of operating staff for the Units;
- deploying information technology ("IT") systems to support the Units;

- drafting and obtaining approval of the operating, maintenance and safety plans for the Units; and
- performing all the tasks that fall under the heading of operational readiness for the Units.

The BLRA provisions as to cost and construction schedule updates properly focus on those aspects of the project that the Company can control, specifically its own prudence as owner in administering the EPC contract, overseeing the contractor's work and performing the work that is the owner's direct responsibility. Other risks related to construction are reviewed in the initial BLRA proceeding when the EPC contract, EPC contractor, and other aspects of the project are being approved. The decision to approve a project under the BLRA is a decision that it is reasonable and prudent to assume the risks of proceeding given the terms of the EPC contract, the review of the EPC contractor, and the other matters considered.

Q. IS THIS POSITION CONSISTENT WITH THE COMMISSION'S PRIOR RULINGS UNDER THE BLRA?

A. In the 2008 proceedings, the Commission and the parties reviewed the risk factors associated with this project and concluded that the project should proceed under the terms of the BLRA in spite of those risks. Based on its review of that information, the Commission ruled as follows:

> The Commission's approval of the reasonableness and prudency of the Company's decision to proceed with construction of the Units rests on a thorough record and detailed investigation of the information known to the Company and the parties at this time. Once an order is issued, the Base Load Review Act provides that the Company may adjust the approved construction schedule and schedules of capital cost if circumstances require, so long as the adjustments are not necessitated by the imprudence of the Company. S.C. Code Ann. § 58-27-270(E). The statute does not allow the Commission to shift risks back to the Company. ... In addition, risk shifting could jeopardize investors' willingness to provide capital for the project on reasonable terms which, in turn, could result in higher costs to customers.

Order No. 2009-104(A), p. 92. On appeal, the South Carolina Supreme Court described that order as "a very thorough and reasoned order." *Friends of Earth v. Pub. Serv. Comm'n of S. Carolina*, 387 S.C. 360, 372, 692 S.E.2d 910, 916 (2010). The court stated that "the Commission addressed each and every concern Appellant presented . . . ." *Id.*

Q. WHAT INFORMATION ABOUT RISKS DID SCE&G PLACE BEFORE THE COMMISSION IN 2008?

A. When SCE&G filed for BLRA approval in 2008, it placed before the Commission an extensive assessment of the risks and uncertainties of this project. SCE&G also placed before the Commission its choice of EPC contractors, its plan for construction of the Units, and the terms of the EPC Contract under which subcontractors would be selected and the Units would be constructed. SCE&G explained:

> SCE&G has reviewed the risks related to constructing the Units carefully and over an extended period of time. It has compared those risks to the risks of the other alternatives that are available to meet

> the energy needs of its customers and the State of South Carolina. . . . SCE&G has concluded that constructing the Units is the most prudent and responsible course it can take at this time to meet the base-load generation needs of its Customers. . . .
>
> ...In the end, this project's ability to meet its current schedule and cost projections will depend on the cumulative effect of those risk events that do occur on the schedule and cost projections contained in this Application.

Petition, Docket No. 2008-196-E, Exhibit J, p. 12.

SCE&G's 2008 BLRA application acknowledged that, "[f]or a project of the scope and complexity of the licensing and constructing of the Units, any list of potential risk factors compiled at this stage of the process will not be exhaustive." Petition, Docket No. 2008-196-E, Exhibit J, p. 12. With that caveat, SCE&G listed the specific risks that seemed most important at the time. Among the risks specifically enumerated at that time were many, if not all, of the risks that have resulted in the current update filing:

- Module production: "It is possible that manufacturers of unique components (e.g., steam generators and pump assemblies or other large components or modules used in the Units) and manufacturers of other sensitive components may encounter problems with their manufacturing processes or in meeting quality control standards. . . . Any difficulties that these foundries or other facilities encounter in meeting fabrication schedules or quality standards may cause schedule or price issues for the Units."

- Construction Efficiencies: "The project schedule and costs are based on efficiencies and economies anticipated from the use of [standardized designed and advanced modular construction processes]. . . . However, standardized design and advanced modular construction has not been used to build a nuclear facility in the United States to date. The construction process and schedule is subject to the risk that the benefits from standardized design and advanced modular construction may not prove as great as anticipated."
- Rework: "[N]o AP1000 units have yet been built. Accordingly, problems may arise during construction that are not anticipated at this time. These problems may require repairs and rework to be corrected. Repairs and rework pose schedule and cost risks resulting both from the repairs and the rework itself, and from the time and expense required to diagnose the cause of the problem, and to plan, review and approve the work plan before implementation."
- Scope Changes: "[S]cope increases can result from changes in regulation, design changes, changes in the design and characteristics of components of equipment, and other similar

factors. . . . Scope changes represent an important category of risk to which the project is susceptible."

- Design Finalization: "[T]here is engineering work related to the Units that will not be completed until after the COL [Combined Operating License] is issued. Any engineering or design changes that arise out of that work . . . could impact cost schedules or construction schedules for the Units."

See Combined Application, Docket No. 2008-196-E, Exhibit J, p. 6-12.

In light of these risks, SCE&G expressly acknowledged in 2008 that cost and schedule updates might be required. The Commission agreed that under the BLRA these updates would be allowed so long as they were not due to the imprudence of the utility.

Q. WHAT DO THE OUTSTANDING COMMISSION ORDERS SAY ABOUT THE EPC CONTRACT?

A. In Order No. 2009-104(A), the Commission ruled that "[a] key component of the prudency review envisioned by the Base Load Review Act is a review of the reasonableness and prudence of the contract under which the new units will be built." Order No. 2009-104(A) at p. 70. The Commission pointed out that in the 2008 proceedings "[a] number of intervenors have raised questions concerning the degree of price certainty provided by the EPC Contract." *Id.* at p. 73. However, the Commission noted that this issue has been addressed in the testimony of the Company's witnesses who "testified that in the EPC Contract the Company sought to obtain the greatest degree of price assurance possible, with due consideration to the cost that [WEC/CB&I] would charge for accepting additional price risk." *Id.* The Commission concluded that "the EPC Contract contains reasonable and prudent pricing provisions, as well as reasonable assurances of price certainty for a project of this scope." *Id.* at 74.

Mr. Byrne and I were involved in the negotiation of the EPC contract, which took over two years after WEC/CB&I was selected as the preferred vendor. During those negotiations, we gave serious consideration to obtaining fixed or firm pricing for Craft Labor, Non-Labor Costs and some or all of the potential scopes of work falling in the Time & Materials ("T&M") categories. The EAC cost adjustments presented for review in this proceeding, apart from change orders, are all found in these categories.

As indicated in Order No.2009-104(A), we determined that the price SCE&G and SCE&G customers would have paid for price certainty for these items was prohibitive. In 2008, we did negotiate fixed or firm pricing for more than 50% of the EPC Contract. Since that time, we have extended price assurance to approximately two-thirds of the contact through subsequent negotiations with WBC/CB&I. Our conclusion in 2008 was that the premium to fix the prices for the remaining EPC cost categories was too high. The Commission expressly approved that decision as reasonable and prudent in Order No. 2009-104(A).

In spite of the increased costs we are considering today, the decision to forego price certainty in 2008 was the correct decision. I have participated in the EPC Contract negotiations and can affirm that the cost increases we are facing today do not exceed the cost that would have been paid for additional fixed price assurances under the EPC Contract.

Q. SHOULD THE COMPANY POSTPONE UPDATES TO THE SCHEDULES UNTIL ISSUES RELATED TO SCHEDULE AND COST DISPUTES WITH THE CONTRACTORS ARE RESOLVED?

A. No. It would not be prudent for the Company to defer updating its cost and construction schedules until a later time:

1. We do not know when a more appropriate time would be. While we would hope that our disputes with the contractors can be resolved by negotiations, there is no timetable for those negotiations. If litigation is required, the court proceedings in a matter this complex could last five years or more. The final resolution might come well after the project was completed.
2. The most important years for financing the Units will be 2015-2017. Delaying a decision on these costs will inject significant uncertainty in the financing plan at the exact wrong time.

3. If SCE&G foregoes adjusting its cost and construction schedules, it foregoes including these costs in revised rates filings. Without revised rates, SCE&G loses revenue that is required to support the debt the Company plans to issue in the coming years and to support common stock. Our financial plan for completing these Units is based on regular, annual revised rates filings. Without the revenue from revised rates, our debt service ratios, and other financial ratios begin to erode immediately resulting in a financial plan that rapidly becomes unworkable.

4. The financial community expects us to update our schedules and proceed with revised rates as we have every year since 2009. If we are not able to proceed consistently with past practice and current expectations, the financial community will swiftly reassess its support for this project and the confidence it has in the Company's financial plan. This is the most important point of all. The consequences of the Company not proceeding with updates and revised rates filings as the BLRA envisions could result in an immediate withdrawal of financial support for this project.

5. Not to proceed with this filing would also be contrary to our long-standing commitment to this Commission and the public to come forward publically for approval of changes in our cost and construction schedules as we identify them.

Without approval of the cost and construction schedules proposed here, the Company's ability to finance the completion of the Units on reasonable financial terms may be placed in great jeopardy.

Q. IF THESE DISPUTES ARE UNRESOLVED, HOW CAN COST AND CONSTRUCTION SCHEDULE UPDATES BE APPROVED?

A. The cost and construction schedules presented for approval here are no different from those approved in 2008 and in each update docket thereafter. In each case, the Company came before the Commission with the best information available concerning the anticipated construction schedule for completing the Units and the anticipated costs associated with that schedule. In every case, both the cost and the construction schedules presented and approved have been anticipated schedules for completing the Units. As anticipated schedules they are subject to risks, uncertainties, potential changes and possible revisions. That is true of the cost schedule here just as it has been true of all cost schedules the Commission has approved to date.

The current schedules reflect the best information available about the anticipated costs and construction timetables for completing the project. The anticipated capital costs presented here are not speculative. As Mr. Byrne testifies, they are based on a careful review of construction plans and the costs of the tasks required to complete them. No speculative or un-itemized costs are included in this cost schedule. There is no question that these costs on this schedule will be paid. They only question is whether SCE&G can recover some of these costs from WEC/CB&I. It is appropriate that this cost schedule be approved under the BLRA as the updated schedule for the project.

Q. **SHOULD WE WAIT FOR CHANGE ORDERS?**

A. No. A change order is not needed to properly consider these updates. The Construction Labor, and Non-Labor Costs, which constitute the Target Cost categories under the EPC Contract, are not fixed or firm. T&M costs are also not fixed or firm. Change orders to the EPC Contract are not required for WEC/CB&I to bill SCE&G for amounts above the target or estimated levels.

Q. **HOW WILL REGULATORS ENSURE THAT IMPROPER CHARGES ARE NOT INCLUDED IN REVISED RATES?**

A. As is always the case under the BLRA, revised rates are based on actual payments only, not projections. They never reflect costs that have not been paid. In all cases when SCE&G files for revised rates, the Company presents ORS with the actual invoices and other cost data establishing the project costs that have been paid to date and information justifying those costs. ORS has full audit authority over this data. ORS carefully audits all amounts SCE&G seeks to include in revised rates recovery.

SCE&G has no interest in including any improper amounts in revised rates recovery. If anything improper is found in these amounts through ORS's audits or otherwise, we will thank the party that points that out and remove those amounts from revised rates filings immediately. If those amounts were improperly invoiced to us by WEC/CB&I, we will take appropriate action with WEC/CB&I to have their invoices corrected and proper credits applied.

Q. HAS SCE&G APPROVED THESE UPDATED SCHEDULES?

A. SCE&G has "approved" the updated schedules in the sense that it recognizes them to be the most accurate and dependable statements available of the anticipated construction schedule for completing the Units and the anticipated schedule of capital costs for completing the Units. As a practical matter, these schedules are in fact the schedules under which work on the project is proceeding. Insofar as they reflect data from WEC/CB&I, that data has been endorsed by WEC/CB&I as contractor under the EPC Contract. SCE&G has carefully reviewed the data provided by WEC/CB&I and verified its reasonableness. SCE&G has also provided certain data of its own that is included in the cost schedule, specifically data as to Owner's cost and payments it intends to withhold from WEC/CB&I. SCB&G stands behind its data completely.

For these reasons, SCE&G has determined that the anticipated cost schedule presented by Ms. Walker (Exhibit No. ___ (CLW-1)) and the anticipated construction schedule presented by Mr. Byrne (Exhibit No. __ (SAB-2)) are reasonable and prudent basis on which the Commission may update the approved BLRA schedules for this project. The schedules presented here in every way meet the definition of the anticipated construction schedule and the anticipated capital cost schedule for the project. They are appropriate schedules for the Company to bring forward to the Commission for review and approval under BLRA. In that regard SCE&G has approved these schedules for filing as updated project schedules ~~as the~~ for BLRA purposes.

However, for purposes of the EPC Contract, we are concerned that WEC/CB&I may seek to take the term "approved" as applied to these schedules to mean that SCE&G has approved substituting these schedules for the schedules previously approved in the EPC Contract, thereby excusing WEC/CB&I from contractual obligations, penalties, claims and possible damages from failing to meet those schedules. SCE&G has not approved those schedules in that sense whatsoever. In its role as Owner of the project, SCE&G intends to maintain all claims and exert all possible leverage over WEC/CB&I related to its obligations under the EPC Contract.

Q. WHAT IS YOUR CONCLUSION AS TO THE VALUE THAT NEW NUCLEAR GENERATION BRINGS TO YOUR CUSTOMERS AND TO THE STATE OF SOUTH CAROLINA?

A. SCE&G continues to pursue the generation plan that it presented to this Commission in 2008. That strategy remains fundamentally sound. When SCE&G came before the Commission in 2008, we presented a detailed overview of the risks and challenges of building a nuclear plant. We showed then that the benefits to our customers from new nuclear capacity far outweighed these risks and challenges.

We are now seven years into a twelve year construction project. As Mr. Byrne testifies, the project team has overcome many of the one-of-a-kind challenges presented by this project. The financial information I have provided shows that the impact of lower inflation, lower debt costs and increased production tax credits will offset the impact of capital cost increases. Because of these off-sets, the costs of the project to customers is no greater today that it was in 2008 when SCE&G first came to the Commission for its approval.

Furthermore, the environmental imperatives of reducing CO_2 emissions are greater than ever. The risks of building a system with an imbalanced reliance on fossil fuels for dispatchable base load capacity is certainly no less than it was in 2008.

As Dr. Lynch testifies, the Company has updated its modeling of the cost of completing the Units compared to other alternatives. That modeling demonstrates that even with today's low natural gas prices –which I believe are not sustainable over the long run–completing the Units remains the lowest cost alternative for meeting the pressing need of SCE&G's customers for base load generating capacity. The financial benefits of completing the Units are clear even when the risk of future natural gas volatility is ignored.

In light of these facts, we believe that the logical and prudent choice is to proceed with the construction plan and apply the BLRA as written. The BLRA is the basis on which the project has been successfully financed to date. It will be the basis for all future financings. The BLRA is the basis on which SCE&G maintains the creditworthiness necessary to continue this project. Deviating from the consistent application of the BLRA would put the financial plan for completing the Units at grave risk. That could increase the costs of the project to customers dramatically and could well result in the financial community denying SCE&G access to capital on reasonable terms. That could make completing the Units financially impossible which would be a great loss to our customers, to our partner Santee Cooper, and to our state.

My senior management team and I are directly involved in the management and oversight of the project and in interacting with WEC/CB&I and its senior leadership team. We are dealing with the issues with WEC/CB&I aggressively and at the highest levels. The challenges we are facing are consistent with the risk we identified in our filings in 2008.

The important point is that these challenges do not in any way outweigh the long-term benefits of adding this new nuclear capacity to our system.

The construction phase we are in today is temporary. If we stay the course with construction and with regulation, the Units will be built and will provide reliable, non-emitting base load power to our customers for 60 years or more. It is my opinion based on thirty-eight years' experience in this industry that the value of the new nuclear capacity under construction today remains much greater than any challenges we have encountered or are likely to encounter during construction of the project.

Q. WHAT ARE YOU ASKING THE COMMISSION TO DO?

A. SCE&G is asking the Commission to approve the updated cost forecast and construction schedule for the Units as presented in the Petition in this matter and in the testimony of Mr. Byrne, Mr. Jones, and Ms. Walker. SCE&G requests that the Commission find that the changes in cost and construction schedules are the result of risks that have long been identified as pertaining to a project of this size and complexity. Moreover, SCE&G requests the Commission to find that SCE&G's management and development of the project continues to be reasonable and prudent in all respects.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes. It does.

MR. BURGESS: Madam Chairman, Mr. Marsh is available for cross-examination by Mr. Guild and questions from Commissioners, if any.

CHAIRMAN HALL: All right. We'll take a short break before we begin. Five minutes.

[WHEREUPON, a recess was taken from 11:35 to 11:50 a.m.]

CHAIRMAN HALL: Thank you. Be seated.

Mr. Guild, if you will go over to that mic, and never leave that mic, please.

[Laughter]

CROSS EXAMINATION

BY MR. GUILD:

Q Good morning, Mr. Marsh.

A Good morning.

Q I'd like to confirm some numbers for you as we try to examine the Application you have before us. The company has just recently filed for a Base Load Review Act annual increase based on the capital costs of the proposed plants; is that right?

A It's based on the revised schedule we received from the consortium, that's correct.

Q Okay. And I have an Exhibit G to that Application that's identified as a red-lined amended Exhibit G-corrects a couple of errors, I think. I just wanted you, if I could get you to confirm, subject to check, the figures that appear on that sheet that I've been relying on. First, there's a line that's entitled "Incremental Revenue Requirements-BLRA," and are those the incremental requirements that are associated with financing the Units 2 and 3?

MR. BURGESS: Madam Chairman, would Mr. Guild be so kind as to show Mr. Marsh what he's reading from?

MR. GUILD: I just have one copy, but if perhaps counsel has available the document, they could share with him. I'd be happy to show it to him; it just has my handwriting on it, my scratching.

CHAIRMAN HALL: Can you tell us what document you're referring to?

MR. GUILD: Yes. It's Exhibit G to the pending rate increase request by SCE&G. It's their pending request.

BY MR. GUILD:

Q You filed one in June, did you not, Mr. Marsh?

A I believe that's correct. I'll get a copy of it from the attorneys.

Q Perhaps I could just ask –

MR. BURGESS: You don't have a copy, Mr.

Guild, to show him?

MR. GUILD: I have just one copy.

MR. BURGESS: Okay.

VOICE: It's your document.

MR. BURGESS: I think you have to show your copy to the witness.

CHAIRMAN HALL: Okay. Mr. Guild, we're going to get a copy of that, so that he can review it, as well. You don't have a clean copy, Mr. Guild?

MR. GUILD: No, ma'am, I do not. I assumed the company would know about their own exhibits.

CHAIRMAN HALL: Mr. Zeigler, have you found a copy?

MR. ZEIGLER: [Indicating.]

WITNESS: [Indicating.] I've got a copy of the exhibit. We are ready.

CHAIRMAN HALL: Thank you.

BY MR. GUILD:

Q Mr. Marsh, you have that before you?

A Yes, I do.

Q And make sure you have the amended red-lined version. Do you have that one, sir?

A Mine says, "Amended Exhibit G."

Q That's right. "Red-Lined version" under that?

A I don't see "red-lined version."

MR. BURGESS: I think his version is a clean version that he has there.

MR. GUILD: Well, let's just see-

MR. BURGESS: There is a clean version and a red-line version. I think Mr. Guild is reading from the red-line version. We have a copy of the clean version. If you would prefer that he read from a red-line version, we'll try to find a red-line version.

MR. GUILD: It's just the copy I have, Mr. Burgess.

BY MR. GUILD:

Q But let me just see if I can get you to confirm the numbers. If they're different, just tell me, please.

A That's fine.

Q But, again, there's a horizontal line that reads "Incremental Revenue Requirements-BLRA." You see that? Left-hand column?

A Yes, I do.

Q All right. And it has a series of entries by year, running across from left to right, on the page, correct?

A That is correct.

Q Does that indeed represent the annual increase associated with financing Units 2 and 3 under the BLRA?

A It would represent through 2014 the revenue requirement that I believe we've already applied under the Base Load Review Act, and from '15 forward I believe those numbers would represent the estimated amounts of revenue increase that will be required, based on the information we provided in this docket to the Commission.

Q Indeed, that's what I'm driving at, all right? So, just subject to check– and if you have the document, confirm these numbers appear– for 2015, and that's the pending application, you show an incremental BLRA revenue requirement of $70 million, correct?

A That is correct.

Q All right. And 2016, $135 million?

A That's correct.

Q 2017, $111 million?

A That's–

MR. BURGESS: Madam –

WITNESS: –correct.

MR. BURGESS: –Chair, if I may. I'm not really sure where Mr. Guild is going with this. He's referring to an Application in another docket that's not germane to this proceeding. We would object to this line of questioning on the ground it's irrelevant.

MR. GUILD: Madam Chair, it seems to me that the –

VOICE: If he can –

MR. GUILD: – BLRA revenue –

VOICE: – stand up, I can stand up.

CHAIRMAN HALL: I'm sorry.

VOICE: I want to –

CHAIRMAN HALL: No, ma'am, you cannot stand up. You will sit down and behave with some decorum. The only parties – only parties will address the Commission.

Go ahead, Mr. Guild.

MR. GUILD: Madam Chair, the revenue requirements anticipated to complete the plant couldn't be any more relevant. This is a document from the company. It represents an admission by the company. I can't imagine that the Commission wouldn't be interested in hearing what the expected total revenue – incremental revenue requirements are going to be, associated with these cost overruns and project delays. That's precisely what I'm driving at.

CHAIRMAN HALL: All right. Mr. Burgess's objection is sustained, Mr. Guild, so move on, please.

BY MR. GUILD:

Q Would you accept, subject to check, that the total incremental revenue requirements through the in-service dates of 2020 amount to $677 million under the Base Load Review Act, as you project them?

A Not just as a number added up, because those numbers represent potential future increases. Those are derived based on the estimates we have in the calculation we provided the Commission in this case on the revised and updated schedule. As we have provided in our testimony, a significant portion of those dollars are still under dispute and we continue to pursue that dispute with the consortium. So these are estimates for BLRA purposes; they would not represent the actual dollars that would be filed. The only thing that could be filed with the Commission are actual dollars that are spent when they are actually spent. These are future dollars and, so, until they're actually expended by the company, they would not be included in a rate proceeding.

Q Would you accept, subject to check, that my math is correct, $677 million, and, with that explanation, is the total future revenue requirement, 2015 through 2020?

A Yes.

MR. GUILD: Madam Chair, I ask that this be marked as an exhibit and travel with the record as an offer of proof, please.

CHAIRMAN HALL: It will be Hearing Exhibit

No. 3.

[WHEREUPON, Hearing Exhibit No. 3 was marked for identification.]

MR. BURGESS: Madam Chairman, may I see that?

CHAIRMAN HALL: Go ahead, Mr. Burgess.

MR. BURGESS: [Indicating.] Madam Chairman, I would object to the handwriting on this document. I'm not sure whose handwriting that is. It's certainly no witness of ours. So, if Mr. Guild wants to include this in the record, he certainly has that right to do so, but I would object to the writing that's on here.

CHAIRMAN HALL: Mr. Guild, do you have a clean copy?

MR. GUILD: I don't. It's my copy. I submit it's my handwriting. You sustained an objection to my questioning. I submit that I should be able to ask those questions. I'd like the company's own document, from which I was questioning, marked as an offer of proof to travel with the record. I believe, under the Rules of Evidence, I'm entitled to have it marked as an offer of proof, whether it has my handwriting or not, whether Mr. Burgess likes my handwriting or not. I simply ask that the record contain a document from which you did not allow me to examine the witness. Thank you.

CHAIRMAN HALL: Well, certain things, Mr. Guild. Number one, we prefer a clean copy. I mean, I don't know if you want your work product involved or included in the record –

MR. GUILD: I have no problem with that, Madam Chair. You can have my handwriting. I just want to have the record clear that the Commission would not allow this line of questioning, and that is an offer of proof to support any evidentiary objections that I might want to preserve for appeal. So, I'd ask that it be marked in the form in which –

CHAIRMAN HALL: In which –

MR. GUILD: – I was using it.

CHAIRMAN HALL: – case, a clean copy would suffice.

MR. GUILD: Ma'am?

CHAIRMAN HALL: I mean, a clean copy would suffice, would you agree?

MR. GUILD: I can't under- – I can't hear you.

CHAIRMAN HALL: A clean copy. Would you not agree a clean copy would suffice?

MR. GUILD: Would suffice?

CHAIRMAN HALL: As an offer of proof?

MR. GUILD: If I wanted to make it an offer of proof. But I want that document made an offer of proof, Madam Chair. It's the document that I was questioning from, so I would like to have that one marked as an offer of proof. If the Chair would like to include a clean copy, as well, I certainly have no objection to that. My only point is I'm trying to examine the witness from the company's own document. You wouldn't let me do it. I'd like it made an offer of proof.

CHAIRMAN HALL: We've already sustained that objection.

MR. GUILD: What objection is that, Madam Chair?

CHAIRMAN HALL: About not going down that line of questioning. So I'm -- we'll include the clean copy. We'll include a clean copy that you provide.

MR. GUILD: Madam Chair, I'd like the copy with my notes on it included as an offer of proof.

CHAIRMAN HALL: Okay.

MR. GUILD: If the Chair would like a clean copy included, as well, as a Commission exhibit --

CHAIRMAN HALL: No --

MR. GUILD: -- of course, I have no objection.

CHAIRMAN HALL: The clear copy will be Hearing

Exhibit No. 3, no handwriting.

MR. GUILD: Madam Chair, I don't know how to preserve an objection if you won't allow me to put an offer of proof in, so, if the record would just reflect the fact that I would like my document in, regardless of whether it has handwriting on it, as an offer of proof, I would appreciate it.

CHAIRMAN HALL: Okay. Well, that's certainly included in the record, and a clean copy will be Hearing Exhibit No. 3.

[See Vol 3, Pg 398]

BY MR. GUILD:

Q Mr. Marsh, let's talk about the estimates of delay. Would you accept that the company now proposes 38 months and 18 days' additional delay in the completion of construction for Unit 2, as compared to the initial proposed substantial completion date approved by the Commission in the initial Base Load Application?

A Yes, the original date for the new Unit 2 was 2016. We have been back to the Commission with updates to that schedule that currently had it, I believe, before this hearing, as being due in 2017.

Q Thirty-eight months, 18 days?

A I'll take your math, subject to check.

Q You need to get a little closer to the mic. I'm having a hard time with the speakers.

CHAIRMAN HALL: I'm sorry, Mr. Marsh. Yeah, again, we can't hear you.

WITNESS: [Indicating.] Can you hear me now? I can't get much closer.

[Laughter]

CHAIRMAN HALL: Yeah. I'm sorry.

BY MR. GUILD:

Q All right. And at the time the Commission approved the initial Base Load Order in March 2009, Order 2009-104(A), there were 85 months until the initial substantial completion date for Unit 2. Would you accept that?

A Subject to check.

Q Okay. So the 38-month delay – and 18 days – that you propose now, represents a 45 percent extension of that initial substantial completion of the construction schedule, correct?

A I've not done the math. It's a simple calculation, so subject to check.

Q Subject to check. I believe you stated that you estimate that the additional cost to complete represents a 15.8 percent increase over the initial capital costs approved in the initial BLRA Application, correct?

A I believe I said 15 percent in my testimony.

Q All right, I'll accept that. Now, SCE&G already proposes to sell an additional 5 percent of both units to Santee Cooper, do they not?
A No, that's not correct.
Q What's the planned relationship with Santee Cooper in terms of proportional ownership of the units expected to be after in-service?
A Santee Cooper approached us with a discussion about selling part of their ownership. They currently own 45 percent of the new units. And after discussions with Santee, we entered into an agreement with Santee-subject to this Commission's approval -that we would purchase an additional 5 percent of Unit 1 - Unit 2, the first new unit, when it came on-line. That purchase would take place over a two-year period.
Q I see. So, not both units, just Unit 2?
A Just Unit 1.
Q I'm sorry, Unit 2?
A The new unit, which is Unit 2.
Q But not Unit 3?
A That's correct.
Q Okay. So with the addition, then, of an additional fractional ownership by SCE&G, what impact would that have on SCE&G's share of the capital costs to complete the units?

A It has no change on the capital costs we presented here. These capital costs in this filing represent only our 55 percent share. We have not approached the Commission about the additional 5 percent, so there's nothing reflected in these numbers for the additional 5 percent, if we move forward with that.
Q Right, I get that. But if you know already that you're going to sell [sic] 5 percent at least of one unit to SCE&G's co-owner, Santee Cooper, then South Carolina ratepayers are going to bear a proportional increased share of the cost of completing the plant, won't they?
A We're not going to sell any of our interest to Santee Cooper.
Q No, Santee Cooper is going to sell it to you.
A That's correct. I'm just correcting what you said.
Q And so, we, collectively, are going to own more of the units than we would before you sell that fraction – before you buy that fraction from Santee Cooper, correct?
A Subject to this Commission's approval.
Q Right. So how much additional cost will South Carolina Electric & Gas Company ratepayers bear of the cost of the two units after that proposed acquisition is complete?
A The purchase is intended to take place at Santee

Cooper's book cost. Those numbers are being negotiated now, but it will be slightly different from SCE&G's numbers because their accounting is a little bit different. They follow different procedures than we do, as a governmental entity. It would be at their book cost.

MR. GUILD: Madam Chair, I just apologize but I'm having a hard time hearing the witness. I think it's the sound system in some way. It's just a little garbled and I apologize for pressing him, but I just don't understand some of his answers. I'm sure Mr. Marsh is speaking clearly enough; it's just the system.

WITNESS: Let me try it again. Is that better? The 5 percent we would propose to purchase from Santee Cooper, when the first new unit comes on-line, would be at Santee Cooper's cost. That cost would be a little bit different from ours because they follow different accounting policies than we do, because they're a governmental entity. But the intent is to purchase that 5 percent at their cost, subject to this Commission's approval, and the payments for that and the related megawatts, the output, would transfer to SCE&G over a two-year period.

BY MR. GUILD:

Q All right, understood. So the question that I had for you, that I don't think you responded to, is, what additional costs do you expect South Carolina Electric & Gas ratepayers to bear, of the cost of the total project, after that contemplated acquisition from Santee Cooper is complete?

A If you make the assumption that the Commission approves the transfer, then we would assume an additional 5 percent in cost of the total project, based on Santee Cooper's share of the cost.

Q Of Unit 2?

A Of Unit 2.

Q Not Unit 3?

A Not Unit 3.

Q Understood. Thank you. Now, you propose a settlement to the Commission involving an agreed reduction on the return-on-equity component under the BLRA, from 11 percent to 10.5 percent, correct?

A That was part of the settlement agreement.

Q [Indicating.]

A That was part of the settlement agreement, that's correct.

Q Now, can you confirm ORS's estimate that that has an approximate $15 million total-project-lifetime revenue

effect for ratepayers?
A That is correct.
Q Now, you follow-- apparently, as you said in your testimony -- the ratings and commentary by the financial community on the effects of this project on the company's finances?
A Yes, I do.
Q You're familiar with Moody's Investors Services, their commentary on the company?
A They do have commentary from time to time, yes.
Q You familiar with the piece that they offered that compared the effects of the nuclear project by SCE&G on the other AP1000 under construction, the Vogtle project being built by Georgia Power?
A I don't recall that particular piece. I may have read it. I see a lot of information from Wall Street. I don't recall that particular piece at this time.
Q They characterized the project for you as a transforming event for SCE&G. You agree with that?
A I don't know how they used that "transforming," you know, word, in context. To me, it's a transforming aspect of what we'll be able to provide to the State of South Carolina with the clean energy that will come from the project over 60 years. I think that will transform what South Carolina is able to do by providing clean,

non-emitting, reliable power to its customers.

Q Here's what they said that meant-

MR. BURGESS: Objection. That's hearsay.

CHAIRMAN HALL: Sustained.

MR. GUILD: Madam Chair, I'm not testifying; this is cross-examination. I believe I'm entitled to put a question to the witness. I'm not offering evidence; I'm asking the question, and I can quote from anything I want to, I thought, under the Rules of Evidence, Madam.

MR. BURGESS: Madam Chairman, if I may, Mr. Marsh indicated he was not familiar with that particular writing Mr. Guild's referring to.

MR. GUILD: Whether or not, Madam Chair- this is open cross-examination in South Carolina, and I have never been restrained in a court of law from asking a question based on any supposition. I am proposing to him a premise. He doesn't have to agree with it. He can think I'm making it up, for that matter. But the fact remains, I'm entitled to frame a question under the Rules of Evidence.

CHAIRMAN HALL: Okay. Finish your question, Mr. Guild.

BY MR. GUILD:

Q Transforming event for SCE&G. Would you accept that

adding these units alters SCE&G's nuclear generation dispatch from 24 to 80 percent?
A I've got that information. Just bear with me for a minute [indicating]. From a dispatch perspective, in 2014, the dispatch for nuclear is around 19 percent; in 2021, when both units are expected to be on-line, it would go to 56 percent.
Q All right. Would you accept, subject to check, that Georgia Power, which is building Vogtle, will go from only 23 percent nuclear generation dispatch to 30 percent, adding the two Vogtle units?
A I don't know about their generation mix.
Q Would you accept that the nuclear units will represent 26 percent of your total capacity once they're on-line?
A I have 32 percent, including our current unit.
Q Georgia Power/Southern Company, the Vogtle unit is only 2 percent of their total generation. You accept that?
A That sounds very low, but I don't have the details of their generation mix.
Q SCE&G proposes to -- is expected to seek annual rate hikes under the Base Load Review Act that approximate 3 percent per year, to finance the Summer units. Would you accept that?
A I think the average has been about 2.3, 2.4.
Q But in Georgia, it's only 1 percent to finance Vogtle.

Would you accept that?

A I don't have the details of their financing plan or their generation mix, so I just can't verify those numbers.

Q March 16, 2015, Moody's says, quote, "'SCANA and SCE&G are completely exposed to and dependent on the BLRA,' said Susana Vivares, vice president/senior analyst." Are you familiar with that comment by Moody's?

A I've had a number of conversations with Moody's about the impact of the Base Load Review Act and the importance of its application in the building of our units. That comment would not surprise me. When we came to the Commission in 2008 and put the idea in front of the Commission of building these new plants because we felt like they were the best opportunity for us to serve the base-load needs of our customers for years to come, we produced that – we filed that case under the Base Load Review Act.

I was here in the '70s and the '80s when nuclear plants were built initially; there were a number of challenges that were met by utilities. One of those was the compounding of interest rates on top of expenditures while the plants were being built, before they came on-line. We felt like, under the Base Load Review Act– or we knew under the Act, if we were able to recover the financing costs of the plants on a current basis, that would save us approximately $1 billion in financing costs, which in turn would save the customers $4 billion over the life of the plant.

So I've told this Commission before, without that Base Load Review Act, I don't know that we would have proceeded with construction, because that's the construct under which the plants are financed; that is the way we presented the plants to the financial community. They understand how that works. They understand the benefits of building the plants that way. We had done that on several smaller projects prior to bringing the new nuclear project to the Commission. The BLRA just really codified the existing procedures that minimize the need for extended rate cases during the process, as long as the company was proceeding in accordance with its schedule or updates to that schedule it presented and were approved at the Commission.

So for Moody's or any other investor on Wall Street to say they find a very close link between our project and the Base Load Review Act is really no surprise. I would expect them to say that, because the two are very closely tied hand-in-hand and one of the foundational reasons we're able to build this project on favorable financing terms from Wall Street.

Q Does that complete your answer?
A Yes, it does.
Q "The utility has exhausted its financial cushion, is overbudget, and still years away from commercial operation. We," Moody's, "think the risk that South Carolina's electric consumers become less willing to absorb these cost increases is going to rise. In turn, the filing will...turn up the heat on...regulators." You familiar with that comment by Moody's?
A I have not read that comment.
Q Do you dispute the notion that you've exhausted your financial cushion?
A I'm not sure exactly what they are referring to in terms of the financial cushion. We don't have money on reserve on Wall Street. Every time we go to Wall Street to raise funds, whether it's to sell equity or sell bonds, each issuance stands on its own. They may be talking about the original contingency that was put in place in the initial Base Load Review order, that we discussed with this Commission at length in several proceedings. That may be what they were referring to.
Q You certainly don't dispute the notion that you're overbudget and still years away from commercial operation, do you?
A I don't agree with the term "overbudget." When we

brought this project to the Commission in 2008, we talked about the way we laid out the contract with the consortium at the time between Westinghouse and Shaw, and there were three major components. One of those is a firm category -- one was firm, one was firm with fixed escalation, and the third was a final bucket of targeted dollars, which essentially were dollars that were at risk because to fix those amounts would have been excessively expensive to the company and for our customers, and those costs will be paid by SCE&G and Santee Cooper at their actual rates. The majority of that is labor and costs related to labor.

As we've gone through the project, we've made estimates of the work that needs to be done. Some of those estimates have been challenged by the company, which we included -- details about that is included in this filing. So the fact that those target dollars have gone up, in my mind, doesn't mean we're overbudget; that means we've refined those costs. And as we have refined those, we've come back to the Commission and explained those in every case we've been before the Commission for approval.

Q I guess I just don't understand what the concept of "budget," then, is. If budget is what the Commission relied on when they gave you your initial BLRA approval, then what do you have in front of them right now that's $698 million on top of that initial proposal? Which is the budget?

A We've provided projections to the Commission of the costs, based on the best information available at the time. We told the Commission those dollars would be subject to change as additional information was available. There were certain risks that may arise on the project. We've had a number of those risks that have identified themselves. We've addressed those. There have been costs associated with those and we've been back to the Commission to raise our estimates, as appropriate.

Q So, in effect, the Commission accepted your initial Base Load Review with those risks in mind, and we made you build nuclear plants. We put a gun to your head to build these nuclear plants at whatever cost they were going to amount to, because there is no budget. Is that your testimony?

A That's not my testimony, and I want to make it clear on the record that no one from the Commission has put a gun to my head and asked me to do anything. We simply put our proposal to build the nuclear plants before the Commission. We believed then, and we believe now, that that was a good-faith estimate of what we expected the costs to be. We have updated that, as appropriate. And I would offer the Commission that the costs we presented to the Commission back in 2008, when you look at the ultimate costs to be paid by customers, have not changed. While some of the construction costs have gone up, we've saved $1.2 billion in interest costs because we've been able to take advantage of lower interest rates. We believe we'll receive an additional $1 billion dollars in production tax credits because there are fewer new nuclear plants being built in the United States, and we'll qualify for more incentives available from the federal government. When you roll that together with the cost adjustments we presented to you today, the cost is the same as it was in 2008 for customers over the life of the project. There's been no change.

So to say we are overbudget, I don't accept that connotation, because you're only looking at one aspect of the project, and that's project cost. And, certainly, project costs will ultimately be passed on to consumers, but that's only one part of what customers pay. You have to look at production tax credits, financing costs, operating costs. It's all those factors that impact the customer's bill; it's not just the estimated construction cost.

Q So let's focus on those estimated construction costs, because that's why we're here. Page 37 and following of your testimony identifies those risks that you put before this Commission, risks that have turned out adversely and to which you attribute the substantial portion of the increased costs to complete the project; is that right?
A Yes, I identify a number of risks in my testimony.
Q These are the risks that did not pan out as you hoped and expected they would when you talked about them as efficiencies that would limit the costs of completing the project in the initial Application, correct?
A I don't recall that we used the word "efficiencies." We certainly were open and honest about the modular construction efforts and how we thought that would help us build the project the way it was presented.
Q Okay. Page 37, enumerating these by topic, "modular production," that was one of the expected construction efficiencies that you initially projected.
A It is one of the risks we identified.
Q Well, it's a risk you identified, but you identified it initially as a positive that was going to save money on construction of the units, correct?
A That was our initial expectation, associated with the risk that goes with that.

Q And that expectation has not been borne out, has it?

A In some cases, it has not. Module production goes through a number of phases. It starts with the submodule fabrication, a lot of which is coming from Lake Charles, Louisiana. That was a subcontractor on the job that was hired by Shaw and, ultimately, CB&I. The challenge has been in producing those submodules in a way that met the design applications. Many cases, some of the designs changed, as they were building the modules -- the submodules, because of constructibility concerns. They needed to make sure they were in compliance with all the quality-control assurances that we needed for a nuclear project.

What I can tell you is, once those parts and pieces had been delivered on site and we put together the complete module, which was then placed into the reactor vessel or elsewhere on site, we've had a pretty good track record of putting those pieces together once they arrive on site. The challenge has been in the initial fabrication of those submodules, before they are sent to the site for assembly.

Q I look forward to talking to your witness, Mr. Byrne, about those efficiencies or lack thereof, at the plant and at those subcontractors, but suffice it to say, the assumption that you made at the time of the initial

Application is that the modular approach to construction would provide cost savings in the construction of these new AP1000-design units, correct?
A I don't think you can put forth the assumption without the underlying risk we identified with that assumption. I think you have to take it as a whole.
Q All right. Page 38, the second risk you identify as having disclosed to the Commission when they approved this Application was "construction efficiencies," correct?
A That's correct.
Q Again, citing advanced modular construction and standardized design as being the source of expected construction efficiencies, correct?
A That's what we laid out as the plan, along with the risk that was associated with it.
Q Third, you identified "rework" as a risk– correct?
A That's correct.
Q – but note that since AP1000 units have not yet been built, problems may arise during construction requiring rework, correct?
A That's what we identified in our filing, that's correct.
Q And "scope changes," again, page 38, that there can be changes in design, changes in regulatory requirements, midstream during construction, correct?

A We discussed that with the Commission at the initial filing, that these plants to be built at the Jenkinsville site, as well as the ones built at Vogtle by Georgia Power, are the only ones being built in the United States. However, there are four AP1000s under construction in China that started several years before our project started, and we expected and have received some design changes from that process. Mr. Byrne can address that in more detail. But we've tried to incorporate design changes that were considered necessary, that refined the original design, into our process. Of course, it takes time and effort to do that, and that has contributed to some of the delays we have encountered. Mr. Byrne can go into more detail, but there could be constructibility issues by the fabricator as they take the design drawings and try to actually produce the work that's in the design drawings, and they have to go back to the designers to try to work through those issues.

Q Those Chinese AP1000s, are they up and running now?

A The Sanmen– first unit at Sanmen is physically complete. Mr. Byrne can give you more details. If you were to look at a picture of the plant, you would think it complete. It's beginning to go through some of the testing processes that would need to be completed before they load fuel. I believe the latest estimate is they would look to be operational in 2016.

Q All right. Short answer is, none of those AP1000s are on-line yet, producing electricity, are they, in China?

A At this point, no.

Q I'm sorry. You were garbled on that answer.

A No.

Q Of course, as I think we established in an earlier proceeding, Chinese Communists run the regulatory system in China, don't they?

A That's not the way we refer to the process. They do have an oversight process in China. They have an oversight group that looks at the work that's done by the utilities that are building those projects. I wouldn't offer it's equivalent to the South Carolina Public Service Commission or the Nuclear Regulatory Commission, but they do have oversight of those projects. Westinghouse has been on site as the designer of that facility, to make sure it's built to the same standards that we would expect. CB&I, or Shaw, the initial contractor, has been involved in the construction of the units to make sure they're constructed in accordance with the design efforts that are also being followed here in the United States.

Q Well, to be clear, the Nuclear Regulatory Commission is

not licensing the Chinese AP1000s, are they?
A We have never represented that the NRC was overseeing the construction of the plants in China.
Q And do you know whether or not they've imposed, in the Chinese reactors, standards that are equivalent to the quality-assurance standards required of our Nuclear Regulatory Commission?
A I'll let you ask Mr. Byrne that. He's involved in the detailed design and construction more so than I am. He'll be happy to address that question.
Q I'll do that, but as you sit here today, do you know whether or not the Chinese designs meet the stringent quality-assurance standards imposed by the US NRC on domestic US reactors?
A I believe I said earlier they're not under the jurisdiction of the Nuclear Regulatory Commission. The exact design, I would let Mr. Byrne address that question.
Q And on page 39, lastly, of the risks that you say this Commission forced you to take, you identify "design finalization" as a risk that you assumed would work out to your advantage, and has imposed additional cost, correct?
A I don't agree with your assessment that the Commission forced us to take these risks. We presented this

project as a whole, for the good of South Carolina, to make sure we could provide clean, base-load energy for 60 years. We believed then that was the best option, and we believe that today. We were not forced by the Commission to do this. They agreed with our assessment. We spent probably almost two weeks in here. You were involved with that proceeding. We heard a lot of testimony; there were probably thousands of pages of testimony filed. We heard from a lot of witnesses. And at the end of the day, an agreement was reached that that was the best alternative for the State of South Carolina because of the benefits associated with nuclear power. We were not forced to do that.

On a project of this size, you know, design finalization is rarely completed when a project starts. We built our Cope generating facility, our coal-fired plant, back in 1996. The design was not completed when that plant started construction. It's typically completed along the way and finishes in time to make sure the components are available and the design is available to finish the project. So there's design that takes place throughout the process.

We never represented to the Commission that the design was completed. We offered that this was a new design; a conceptual design had been done. The design had been certified by the Nuclear Regulatory Commission. There were several dockets that were heard before the Nuclear Regulatory Commission to certify that design. And there were a number of dockets - if I recall, it was probably 18 or 19. I think the design certification was probably docket 19, if I remember my numbers correctly. But there was a lot of work on the initial design, but the detailed design of the individual components had to be done as the project was under construction.

Certainly, a large percentage of that is done now. There remains a percentage that will still need to be completed as we move forward. I'll ask you to get Mr. Byrne to give some more detail on that, but we have never represented that the design was completed from the day we started the project. That's not customarily the way large projects of any kind are done, whether it's a large power plant or a large project for any other type facility.

Q Well, you did represent to the Commission that under the now current, existing regulatory process, the NRC uses a combined operating license. You don't go through a construction permit and then an operating license; they have one proceeding, and that's the COL, or combined operating license. And that was an efficiency you expected, correct?

A That was a new process that was offered by the Commission for building new nuclear facilities. It was the first time it had been offered. We expected there would be challenges to work through that. We've encountered some challenges and we've been working through that with the NRC. And it's working as designed.

Q So when you came to this Commission, you told them you had a streamlined or a new one-step NRC licensing process, but you also told them that you didn't have a complete design yet for the reactor, and you were going to have to complete that design while construction was underway. You told the Commission that, you're saying?

A We had the design that was certified by the Nuclear Regulatory Commission. The plants could not move forward with nuclear construction until that design was completed and the company issued an operating license. At the time we came to the Commission in 2008, we did not have that license in hand. We were in the process of making application to the NRC to obtain that license. We obtained that license in, I believe it was, March of 2012, which meant, from an NRC perspective, the design was certified for the plant as meeting its regulatory safety requirements.

Q Page 39 of your testimony, "In light of these risks, SCE&G...acknowledged in 2008 that cost and schedule updates might be required." Quote, "The Commission agreed that under the BLRA these updates would be allowed so long as they were not due to the imprudence of the utility." That's what your testimony is, right?

A I believe that comes from the Base Load Review Act itself. As we told the Commission, I told the Commission myself, we are presenting the schedules as our best estimate of our informed judgment of what these plants will cost. We talked about the fixed costs, we talked about the firm with fixed escalation, and we talked about the targeted categories. At that time, about 50 percent was fixed; that's now moved to 66-2/3.

I committed to the Commission that, as information changed or the cost information needed to be revised, that we would be back before the Commission to explain the reasons behind it and give them a chance to ask us questions. ORS is on site on a daily basis. They review this information; they sit in our meetings; they have access to all the documents. Our commitment was we would inform the Commission, as the Base Load Review Act requires us to, from a full transparency perspective, and make them aware of the changes. We've been back several times to do that and presented that information with the Commission, under the Act, and to this point they have found nothing that's been done that was imprudent by the company.

We believe the information we provided in this case supports the evidence that these costs are justified to be added to the estimate of construction and the change in the schedule, and the company has acted prudently in bringing that information and managing the project.

Q All right.

CHAIRMAN HALL: Mr. Guild, we're going to break for lunch now. We will come back at 1:15 – 1:45.

[WHEREUPON, the witness stood aside.]

[WHEREUPON, a recess was taken from 12:35 to 2:10 p.m.]

A F T E R N O O N   S E S S I O N

CHAIRMAN HALL: Thank you. Be seated.

[Witness recalled]

THEREUPON came,

K E V I N   B .   M A R S H ,

recalled as a witness on behalf of the Petitioner, South Carolina Electric & Gas Company, who, having been previously affirmed, was examined and testified further as follows:

CHAIRMAN HALL: All right. Before we resume Mr. Guild's questioning of Mr. Marsh, I think there was something we need to take up? Mr. Burgess?

MR. BURGESS: Thank you, Madam Chairman. One preliminary matter before we begin. Before we took a break, there was an objection lodged by SCE&G as to the relevance of the document that Mr. Guild was cross-examining Mr. Marsh on. So, we hereby withdraw that objection. So if Mr. Guild wishes to cross-examine Mr. Marsh on what I believe to be Exhibit G, the red-line version, which is from the revised rates docket, we have no objection to that line of questioning.

CHAIRMAN HALL: Okay. The document is Exhibit G to what docket?

MR. GUILD: Madam Chair, it's 2015-160-E.

CHAIRMAN HALL: -160-E.

MR. GUILD: The revised rates docket.

CHAIRMAN HALL: Okay. All right, thank you. All right. And Mr. Guild, the objection has been withdrawn, and we've now identified the document. So, before, I ruled that the clean copy would come into evidence, but for what purpose do you want it entered at this time?

MR. GUILD: So, Madam Chair, I would move that a clean copy of that document, Amended Exhibit G from the docket we just referred to, be marked for identification and received in evidence. I've got just a question or two about it. But I would like it, now, received as an exhibit.

CHAIRMAN HALL: Okay, the clean copy.

MR. GUILD: Yes, ma'am.

CHAIRMAN HALL: Because we were— the dispute was about the handwritten copy.

MR. GUILD: The clean copy in as an exhibit, please.

CHAIRMAN HALL: Okay, so the clean copy—

MR. BURGESS: Madam Chairman, just so as not to confuse, there is a red-line version of that document –

CHAIRMAN HALL: Okay.

MR. BURGESS: – and there's a clean version of that document. I believe the document Mr. Guild had was the red-line version that had his handwritten notes on it. So we certainly have no objection to the red-line version coming in, absent any handwritten notes, or, if you would prefer to put the clean version in, absent any handwritten notes– I know it's a little confusing.

CHAIRMAN HALL: Okay.

MR. BURGESS: – I think that would be sufficient for us.

CHAIRMAN HALL: All right. So right now, we've made Hearing Exhibit 3 the clean red-line copy? Is that correct, Mr. Butler?

MR. BUTLER: I think that was correct.

CHAIRMAN HALL: Okay.

MR. BUTLER: Mr. Guild was just getting ready to, I think, identify–

CHAIRMAN HALL: Okay, go ahead, Mr. Guild. I'm sorry.

MR. GUILD: It's immaterial. Either one– the contents are the same with the exception of the corrections. But if it's the company's preference, we'll have the clean copy of the final non-red-line version of that Exhibit G. I'd ask that be received in evidence, please.

CHAIRMAN HALL: All right.

MR. BURGESS: That's perfectly acceptable with us.

CHAIRMAN HALL: All right. Well, it's already in as evidence. Hearing Exhibit No. 3.

[See Vol. 3, Pg 398]

FURTHER CROSS EXAMINATION

BY MR. GUILD:

Q Good afternoon, Mr. Marsh. Thank you for your patience.

A Good afternoon. Is the microphone working better?

MR. BUTLER: Much. Much better.

CHAIRMAN HALL: Okay, yeah, and I do apologize for that. Apparently, an amplifier wasn't on. And so, we do apologize. And, yes, now all the Commissioners can hear.

MR. GUILD: Everybody sounds like themselves, Madam Chair, and also Mr. Marsh I hear loud and clear.

BY MR. GUILD:

Q Would you just accept, subject to check, Mr. Marsh, again from that document-- the company's Amended Exhibit G-- that if you total the entries for "Incremental Revenue Requirement-BLRA" from years 2015 through 2020, recognizing that those latter years are estimates, as you said, that the total of those values would be $677

million, subject to check?
A Subject to check, yes.
Q Now, Mr. Marsh, as you relayed in your testimony, the company is currently in a dispute with the consortium-- the Westinghouse Consortium-- with regard to who bears the costs for a number of elements in the capital costs of the proposed Unit 2 and Unit 3 reactors, correct?
A That's right. The numbers that we presented in the filing before the Commission today represent the best estimate of the costs to complete the plants at this time, but do reflect-- we have noted in my testimony, and others' --that there are disputes related to certain costs included in those amounts.
Q And what's the form, currently, of those disputes, Mr. Marsh?
A We have been in discussions with the consortium on numerous occasions since we got the revised integrated schedule. I believe it was in August of last year, and the cost data that went with that schedule followed shortly thereafter. Once we got the cost information, we put a team together on the site, at the project, to review the schedule, to understand the assumptions they'd made, and to challenge the costs and the data that was in that schedule to determine, one, if we thought it was a reasonable estimate to reflect what it